Israel Corporation Limited

Financial Statements
As at June 30, 2006
(Unaudited)

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Contents

Directors' Report to the Shareholders of Israel Corporation Ltd.

For the Six Months Ended June 30, 2006

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 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 reported results reflect the reorganization and efficiency measures taken, improvement of the cash flows and strategic acquisitions in the fertilizers and shipping areas 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 June 30, 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 June 30, 2006, amounted to NIS 25,139 million, compared with NIS 23,355 million, as at June 30, 2005.

– The working capital as at June 30, 2006 amounted to NIS 5,014 million, compared with working capital of NIS 3,260 million as at June 30, 2005.

– The balance of the long-term investments, loans and receivables as at June 30, 2006 amounted to NIS 555 million, compared with NIS 1,306 million as at June 30, 2005. (During the period of the report, the Corporation's holdings in Oil Refineries Ltd. were sold).

– The long-term liabilities, as at June 30, 2006, amounted to NIS 10,140 million, compared with NIS 9,399 million, as at June 30, 2005.

– The Corporation's shareholders' equity as at June 30, 2006 amounted to NIS 5,466 million, compared with NIS 4,660 million as at June 30, 2005, and NIS 5,398 million as at December 31, 2005.

RESULTS OF OPERATIONS

The Corporation finished the period of the report with earnings of NIS 408 million, compared with earnings of NIS 806 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 $189 million compared with earnings of $197 million in the corresponding period last year.

B. ZIM Integrated Shipping Services Ltd. (hereinafter – "ZIM") finished the period of the report with earnings of $43 million, compared with earnings of $94 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 the sale of ships.

C. Tower Semiconductor Ltd. (hereinafter – "Tower") finished the period of the report with a loss of $89 million, compared with a loss of $103 million in the corresponding period last year.

   In the period of the report, the Group share of Tower's losses amounted to NIS 125 million, compared with NIS 49 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 36 million, compared with non-recurring income in the net amount of NIS 186 million in the corresponding period last year.

E. The net financing expenses in the period of the report amounted to NIS 235 million, compared with expenses of NIS 61 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 and an increase in the total financial liabilities, along with a decline in income from investments in marketable securities.

The Corporation finished the second quarter period of the report with earnings of NIS 164 million, compared with NIS 327 million in the corresponding quarter last year.

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

A. ICL finished the second quarter with earnings of $92 million compared with earnings of $101 million in the corresponding quarter last year.

B. ZIM finished the second quarter with earnings of $22 million, compared with earnings of $29 million in the corresponding quarter last year.

C. Tower finished the second quarter with a loss of $44 million, compared with a loss of $47 million in the corresponding quarter last year.

D. The net financing expenses in the second quarter amounted to NIS 157 million, compared with expenses of NIS 15 million in the corresponding quarter last year.

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 period of the report and in the fourth quarter of 2005, the Corporation acquired about 2.9% of the share capital of ICL for an aggregate consideration of NIS 694 million. The excess of the acquisition cost over the book value created on the acquisitions totaled NIS 469 million and was allocated mainly to fixed assets, a concession, inventory, deferred taxes and goodwill.

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 as a dividend, and the amount of NIS 579 million, which was paid by the State. The Corporation set its investment in ORL at the value of the consideration received in the sale and, accordingly, no capital gain was realized with respect to the transaction.

C. Regarding an agreement to acquire equipment and to invest in Tower – 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 $189 million, compared with earnings of $197 million in the corresponding period last year.

Sales of the ICL Group totaled 1,564 million in the period of the report, compared with $1,484 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 activity sectors that was offset by a decrease in sales of potash as well as a number of other products.

The gross profit amounted to $549 million, a decline of 4.6% compared with the corresponding period last year. The decline in the gross profit stems, mainly, from the decline in potash sales and from an increase in the cost of primary inputs, including, an increase in the energy prices and the prices of some of the raw materials, as well as an increase in overland transport costs.

In the first quarter of 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 the customary period of time in prior years. The extended negotiations gave rise to a discontinuance of shipments to China. In addition, the decision of other potash customers to wait to see what the results of the negotiations with the Chinese customers would be, the continued weakness of the Brazilian market, and the long winter in Europe caused a significant decrease in the sales of potash from beginning of 2006 and a corresponding increase in the potash inventories. These factors caused a number of large potash manufacturers to give notice of a decrease in the manufacturing in their factories in order to conform the production to the sales. Subsequent to the balance sheet date, in July 2006, sales transactions were made between several potash manufacturers, including ICL, for supply of potash to Chinese customers for the balance of 2006, accompanied by an increase in prices. In August 2006, ICL signed an agreement with its major customer in India for sale of potash during a period running up to April 2007, at the price level contained in the prior agreement.

The recovery in the electronics market generated an increase in demand for flame retardants, compared with last year. The sale prices of bromine and most of its components increased over the corresponding period last year. In particular, note should be made that the sale prices of the chemicals used for oil drillings increased at a significant rate over the corresponding period last year.

ICL's performance products' activities 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 in some of the markets adversely affected the earnings of ICL Metallurgy.

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

The net financing expenses in the period of the report amounted to $19 million, compared with financing income of $1 million in the corresponding period last year. In the first six months of last year, ICL realized income from exchange rate differences, in the amount of $14 million. In addition, the financing expenses were impacted by an increase in the average balance of the net financial liabilities as well as by an increase in the average dollar interest rate in the period.

The taxes on income in the period of the report amounted to $63 million, compared with $87 million in the corresponding period last year. The decrease stems from, among other things, reduction of the current tax rate from 34% to 31%.

ICL finished the second quarter of the period of the report with net earnings of $92 million, compared with earnings of $101 million in the corresponding quarter last year.

The ICL Group's sales in the second quarter totaled $847 million, compared with $774 million in the corresponding quarter last year – an increase of 9%. The increase derives, mainly, from inclusion of the sales of Astris and price increases in most the activity sectors.

The decline in sales in the fertilizers sector in the second quarter, increase in the energy prices and increase in the prices of some of the raw materials gave rise to a decline in gross profit at the rate of 5.7%, compared with the corresponding quarter last year.

ZIM INTEGRATED SHIPPING SERVICES LTD.

ZIM finished the period of the report with earnings of $43 million compared with earnings of $94 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:

	Six Months Ended June 30		**Three Months Ended June 30**	
	2006	**2005**	**2006**	**2005**
	Millions of Dollars		**Millions of Dollars**	
Revenues from shipping and accompanying services	1,397	1,392	722	735
Operating expenses and cost of services	1,248	1,220	647	653
Depreciation	35	35	18	18
Gross profit	114	138	57	64
Administrative and general expenses	52	50	26	26
Operating earnings	62	87	31	38
Taxes on income	15	38	9	11
Capital gain from sale of ships, net of tax effect	–	31	–	–
Net earnings for the period	43	94	22	29

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

	Six Months Ended June 30		**Three Months Ended June 30**	
	2006	**2005**	**2006**	**2005**
	Millions of Dollars		**Millions of Dollars**	
Cash provided by (used in) operating activities	12	113	(14)	41
Acquisition of ships, investments and fixed assets	(49)	(90)	(40)	(55)
Proceeds from sale of ships, investments and fixed assets	18	122	13	8
Cash used in financing activities	(52)	(83)	(41)	(27)

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

	June 30	
	2006	**2005**
	Millions of Dollars	
Total financial liabilities	627	643
Total monetary assets	343	304
Shareholders' equity	548	458
Total assets	1,669	1,638

ZIM's revenues in the period of the report from shipping and accompanying services amounted to $1,397 million compared with $1,392 million in the corresponding period last year.

The increase in the total revenues stems, mainly, from an increase in demurrage fees and revenues of the subsidiaries, which were partly offset by a decline in revenues from shipping fees.

In the period of the report, there was a decline of 2.9% in the quantity of containers shipped, compared with the corresponding period last year, as well as a small decrease in the average shipping price per container, compared with the first six months of 2005.

The operating expenses and costs of services increased, mainly due to an increase in fuel prices at the average rate of 49%, compared with corresponding period last year.

In the second quarter of the period of the report, the total revenues from shipping and accompanying services amounted to $722 million compared with $735 million in the corresponding quarter last year. The decrease is attributable to a decrease of 1.5% in the average shipping price per container, along with a decline in the quantity of containers shipped, compared with the corresponding quarter last year, which was partially offset by demurrage fees and revenues of the subsidiaries.

The fuel prices increased by an average of 41% over the corresponding quarter last year.

In the period of the report and in the second quarter, ZIM shipped 1,004 thousand containers and 518 thousand containers, respectively, compared with 1,034 thousand containers and 546 thousand containers in the corresponding periods last year, respectively.

Acquisition of Equipment by ZIM

– In the period of the report, ZIM signed agreements to acquire 4 container ships having a capacity of 8,200 TEUs each, and 5 container ships having a capacity of 10,000 TEUs each. The total cost of the acquisition amounts to $1.2 billion. The ships are scheduled to be delivered to ZIM in the years 2009–2010.

– During the period of the report, ZIM signed agreements with a third party for the lease of 6 container ships having a capacity of 4,250 TEUs each for a period of 12 years. The ships are scheduled to be delivered to ZIM commencing from 2008. The total cost of the lease fees amounts to $600 million.

– Subsequent to the balance sheet date, ZIM's Board of Directors approved an agreement for the lease of 4 ships, having a capacity of 6,350 TEUs each that were ordered in 2004 and that have not yet been constructed, to a third party, for a period of 5 years from the delivery date of the ships to ZIM upon their completion. 2 ships are owned by ZIM while 2 ships are leased to ZIM (from interested parties) for a period of 10 years. Delivery of the ships to ZIM and the lease thereof are expected to take place in the second half of 2008 and in the first half of 2009. The annual proceeds in a full lease year for all 4 ships amounts to $54 million. ZIM's annual pre-tax income in a full lease year for all the ships to be leased out is estimated at $12 million.

TOWER SEMICONDUCTOR LTD.

Tower finished the period of the report with a loss of $89 million, compared with a loss of $103 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 $80 million, compared with $42 million in the corresponding period last year (after eliminating $8 million received in connection with a technology agreement) – an increase of 90%. In the second quarter of the period of the report, the sales amounted to $45 million, compared with $19 million in the corresponding quarter last year – an increase of 132%.

The cost of sales in the period of the report amounted to $126 million, compared with $122 million in the corresponding period last year, and increase of only 3%, despite the increase in sales, this being 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, $15.5 million par value debentures were converted into Tower shares.

2. 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 start of the payment period with respect to the principal payments will be deferred from July 2007 to a time not before 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 at the end of 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.

   E. As at the balance sheet date, the Corporation invested $19 million in the equipment and it is presented in the category “Investments in Investee Companies”. Subsequent to the balance sheet date, the Corporation invested an additional $11 million.

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

5. In June 2006, pursuant to a public offering on the Tel-Aviv Stock Exchange, Tower raised the amount of $31 million. In the framework of the issuance, 78,000 units were sold at a price of 1,785 per unit. Each unit includes convertible debentures plus options for debentures and two types of warrants. The debentures carry a zero coupon and are scheduled for repayment in one lump-sum payment in December 2011, at a premium of 37% over their face value, linked to the Consumer Price Index. The debentures are convertible into ordinary shares of Tower at a rate of one ordinary share for every NIS 8.4 principal of debentures (subject to certain adjustments).

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.

SOURCES OF FINANCING FOR THE CORPORATION AND THE HEADQUARTERS COMPANIES

As at June 30, 2006, the total financial liabilities of the Corporation and of the wholly owned and controlled headquarters companies (hereinafter – “the Headquarters Companies”) amounted to NIS 2,857 million.

The investments of the Corporation and of the Headquarters Companies in liquid assets, as at the balance sheet date, amounted to NIS 1,515 million. The investments are mainly in short-term shekel deposits and treasury bills, medium-term dollar denominated debentures, CPI-linked corporate bonds and shares listed for trading.

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 swap transaction for exchange of a CPI-linked liability in the amount of NIS 152 million for a dollar liability.

Subsequent to the balance sheet date, the Corporation raised the amount of NIS 650 million by means of a private offering of debentures to institutional investors. The debentures are repayable in four equal annual payments commencing from the year 2011 and bearing annual interest of 5.35%. The debentures were rated AA by “Ma’a lot, The Israeli Securities Rating Company”.

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 pursuant to 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 first quarter of 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 June 30, 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 interested parties 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. During the period of the report, the United States Court of Appeals for the Second Circuit affirmed the prior decision to dismiss the claim against Tower, certain of its directors, Wafer partners and primary investors, including the Corporation, which was handed down by the District Court for the Southern District of New York in August 2004, relating to a claim from July 2003.

8. Regarding the financing arrangements and investments in Tower, see Section on Tower.

9. Regarding the acquisition of ships by ZIM, see Section on ZIM.

10. Subsequent to the balance sheet date, the Corporation's Board of Directors decided to examine the possibility of investing in Paz Fuel Company Ltd. (hereinafter – "Paz") as a result of Paz's winning the tender for acquisition of Oil Refineries Ltd. – Ashdod. The Corporation is continuing to conduct negotiations in accordance with this decision.

11. Subsequent to the balance sheet date, in July 2006, armed military combat activities broke out in the northern section of Israel, which created complications with respect to the operations of some of the companies and gave rise to additional expenses, both directly and indirectly, as well as to a loss of revenues.

    In the estimation of the Corporation's Management, the armed military combat activities did not have a material impact on the Group's results of operations and financial position.

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

August 24, 2006

The Board of Directors
Israel Corporation Limited

Dear Sirs:

Review of the unaudited interim consolidated financial statements as at June 30, 2006

At your request, we have reviewed the interim consolidated balance sheet of Israel Corporation Ltd. as at June 30, 2006, and the related consolidated statements of earnings, the statements of changes in shareholders' equity and the consolidated statements of cash flows for the six-month and three-month periods 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 4.2% of the total assets included in the interim consolidated balance sheet as at June 30, 2006 and whose revenues constitute 4.7% and 4.4% of the total consolidated revenues included in the interim statements of earnings for the six-month and three-month periods then ended, respectively. Furthermore, the data relating to the net asset value of the investments in affiliated companies and the Corporation's equity in the results of these companies, is based on interim financial statements, some of which were reviewed by other auditors.

Since the review performed is 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 performing our review, including reading of the review reports of other auditors as stated above, nothing came to our attention that would indicate the necessity of making material modifications to the said 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.)

August 24, 2006

Consolidated Balance Sheets as at

	As at June 30 2006 (Unaudited) NIS millions	As at June 30 2005 (Unaudited) NIS millions	As at December 31 2005 (Audited) NIS millions
Current assets			
Cash and cash equivalents	821	1,129	1,323
Marketable securities	2,367	1,396	2,206
Short-term loans and deposits	390	516	376
Trade receivables	3,166	3,152	3,448
Other receivables	945	729	739
Inventory	3,365	2,472	3,042
	11,054	9,394	11,134
Long-term investments, loans and receivables			
Investments in investee companies	165	863	887
Investments in other companies	26	25	26
Long-term deposits, loans and receivables	204	194	161
Deferred taxes	27	74	26
Non-current inventory	133	150	133
	555	1,306	1,233
Fixed assets	12,187	11,808	12,271
Other assets and deferred expenses	1,343	788	1,189
Assets attributable to discontinued operations	-	59	-
	25,139	23,355	25,827

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

August 24, 2006

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

	2006	2005	2005
	As at June 30	As at June 30	As at December 31
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current liabilities			
Short-term credit from banks and others	1,940	1,983	1,748
Trade payables	2,060	1,889	2,222
Other payables	2,040	2,262	2,396
	6,040	6,134	6,366
Long-term liabilities			
Long-term liabilities to banks and others	4,870	6,064	5,362
Provision for reclamation and disposal of waste	101	127	98
Debentures	2,199	205	2,224
Deferred taxes	1,751	1,796	1,652
Debentures convertible into shares of the Corporation	1	-	-
Liabilities for employee severance benefits, net	1,218	1,207	1,271
	10,140	9,399	10,607
Debentures convertible into shares of the Corporation	-	22	8
Minority interest	3,493	3,099	3,448
Liabilities attributable to discontinued operations	-	41	-
Shareholders' equity	5,466	4,660	5,398
	25,139	23,355	25,827

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

Consolidated Statements of Earnings for the

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2006	2005	2006	2005	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Sales, shipping and services	13,599	12,636	7,085	6,658	26,405
Cost of sales, shipping and services	10,622	9,534	5,612	5,080	20,069
Gross profit	2,977	3,102	1,473	1,578	6,336
Selling, transport and marketing expenses	928	963	494	515	1,871
General and administrative expenses	539	474	273	240	*1,002
Research and development expenses, net	78	68	39	33	136
	1,545	1,505	806	788	3,009
Operating earnings	1,432	1,597	667	790	3,327
Financing expenses, net	(235)	(61)	(157)	(15)	(237)
Other income, net	37	289	42	65	125
Earnings before income taxes	1,234	1,825	552	840	3,215
Income tax	(353)	(562)	(150)	(257)	(621)
Earnings after income taxes	881	1,263	402	583	2,594
Group's equity in losses of affiliates, net	(98)	***(14)	(52)	***(24)	(80)
Minority interest in earnings of subsidiaries, net	(399)	(443)	(186)	(232)	(929)
Net earnings before cumulative effect	384	806	164	327	1,585
Cumulative effect of change as the beginning of the year in accounting method	24	-	-	-	-
Net earnings for the period	408	806	164	327	* 1,585
	NIS	NIS	NIS	NIS	NIS
Basic earnings per ordinary share					
Before cumulative effect of change in accounting method	50.38	**112.21	21.42	**44.68	**218.11
Cumulative effect of change in accounting method	3.10	-	-	-	-
	53.48	112.21	21.42	44.68	218.11
Diluted earnings per ordinary share					
Before cumulative effect of change in accounting method	50.00	**111.40	21.25	**44.54	** 215.65
Cumulative effect of change in accounting method	3.09	-	-	-	-
	53.09	111.40	21.25	44.54	215.65

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

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
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the six-month period ended June 30, 2006 (unaudited)					
Balance as at the beginning of the period	1,907	34	238	* 3,219	* 5,398
Net earnings for the period	-	-	-	408	408
Dividend paid	-	-	(238)	-	(238)
Adjustments from translation of financial statements	-	(121)	-	-	(121)
Conversion of debentures into shares	9	-	-	-	9
Shares and options issued to employees	10	-	-	-	10
Balance as at the end of the period	1,926	(87)	-	3,627	5,466
For the six-month period ended June 30, 2005 (unaudited)					
Balance as at the beginning of the period	1,503	(58)	220	1,947	3,612
Net earnings for the period	-	-	-	806	806
Dividend paid	-	-	(220)	-	(220)
Dividend proposed subsequent to the balance sheet date	-	-	75	(75)	-
Adjustments from translation of financial statements	-	79	-	-	79
Conversion of debentures into shares	184	-	-	-	184
Exercise of options	199	-	-	-	199
Balance as at the end of the period	1,886	21	75	2,678	4,660

* 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
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the three-month period ended June 30, 2006 (unaudited)					
Balance as at the beginning of the period	1,922	107	-	3,463	5,492
Net earnings for the period	-	-	-	164	164
Adjustments from translation of financial statements	-	(194)	-	-	(194)
Conversion of debentures into shares	2	-	-	-	2
Options issued to employees	2	-	-	-	2
Balance as at the end of the period	1,926	(87)	-	3,627	5,466
For the three-month period ended June 30, 2005 (unaudited)					
Balance as at the beginning of the period	1,718	(69)	-	2,426	4,075
Net earnings for the period	-	-	-	327	327
Dividend proposed subsequent to the balance sheet date	-	-	75	(75)	-
Adjustments from translation of financial statements	-	90	-	-	90
Conversion of debentures into shares	87	-	-	-	87
Exercise of options	81	-	-	-	81
Balance as at the end of the period	1,886	21	75	2,678	4,660

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
	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 paid	-	-	(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 the 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 six months ended		For the three months ended		For the year ended
	June 30 2006	June 30 2005	June 30 2006	June 30 2005	December 31 2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flows generated by operating activities:					
Net earnings for the period	408	806	164	327	* 1,585
Adjustments to reconcile net earnings to net cash flows generated by operating activities (A)	295	720	171	383	1,751
Net cash inflow generated by operating activities	703	1,526	335	710	3,336
Cash flows generated by investing activities:					
Investments in investee and other companies	(652)	(26)	(284)	(13)	(156)
Acquisition of fixed and other assets	(533)	(748)	(326)	(408)	(1,264)
Long-term loans granted	(6)	(40)	(4)	(4)	(155)
Sale (acquisition) of marketable securities, net	(218)	(59)	254	27	(1,283)
Investment grant in respect of fixed assets	14	13	3	4	34
Proceeds from sale of fixed and other assets	88	546	62	43	604
Collection of long-term loans	19	21	9	10	42
Short-term investments, net	(39)	(355)	(112)	(254)	271
Proceeds from sale of investments in investee and other companies	580	2	1	-	75
Acquisition of initially consolidated subsidiaries (B)	-	-	-	-	(1,286)
Net cash outflow generated by investing activities	(747)	(646)	(397)	(595)	(3,118)

* 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 six months ended		For the three months ended		For the year ended
	June 30 2006	June 30 2005	June 30 2006	June 30 2005	December 31 2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flows generated by financing activities:					
Exercise of options in the Corporation and in a subsidiary	93	199	20	81	203
Dividend paid	(238)	(220)	(238)	(220)	(295)
Dividend paid to minority shareholders of subsidiaries	(199)	(77)	(193)	(77)	(219)
Issuance of convertible debentures and receipt of long-term loans	824	1,769	183	345	5,281
Repayment of long-term liabilities	(1,057)	(2,404)	(305)	(1,066)	(4,763)
Receipt (repayment) of short-term loans	152	(301)	62	(354)	(389)
Net cash outflow generated by financing activities	(425)	(1,034)	(471)	(1,291)	(182)
Translation differences in respect of cash balances in autonomous investees	(33)	66	(47)	53	70
Increase (decrease) in cash and cash equivalents	(502)	(88)	(580)	(1,123)	106
Balance of cash and cash equivalents at the beginning of the period	1,323	1,217	1,401	2,252	1,217
Balance of cash and cash equivalents at the end of the period	821	1,129	821	1,129	1,323

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

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

	For the six months ended		For the three months ended		For the year ended
	June 30 2006	June 30 2005	June 30 2006	June 30 2005	December 31 2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
A. Adjustments to reconcile net earnings to net cash flows generated by continuing operating activities					
Income and expenses not involving cash flows:					
Group's equity in results of affiliates, net, less dividend	225	** 46	69	** 53	130
Minority interest in earnings of subsidiaries, net	399	443	186	232	929
Depreciation and amortization	569	534	283	271	1,221
Deferred taxes, net	(15)	259	(32)	122	125
Capital gains, net	(19)	(298)	(28)	(73)	(313)
Erosion of short and long-term loans granted and increase in value of marketable securities, net	13	(11)	29	(3)	(52)
Erosion of loans received and of short-term and long-term liabilities, net	10	(19)	24	(11)	4
Increase (decrease) in liability for employee severance benefits, net	(41)	(15)	28	(26)	47
Expense in respect of shares and options issued to employees	22	-	14	-	* 4
Cumulative effect of change in accounting method	(24)	-	-	-	-
	1,169	939	573	565	2,095
Changes in asset and liability items:					
Decrease (increase) in trade and other receivables	23	(193)	(178)	(249)	(161)
Decrease (increase) in inventories	(393)	(142)	34	11	(404)
Increase (decrease) in uncompleted voyages, net	(203)	(2)	(167)	123	(216)
Increase (decrease) in trade and other payables	(303)	115	(91)	(69)	461
Increase (decrease) in provision for reclamation and disposal of waste	2	3	-	2	(24)
	(874)	(219)	(402)	(182)	(344)
	295	720	171	383	1,751

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

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

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

	For the six months ended		For the three months ended		For the year ended
	June 30 2006	June 30 2005	June 30 2006	June 30 2005	December 31 2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
B. Acquisition of initially 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					
Proceeds from sale of investments in investee companies	-	56	-	56	-
Acquisition of fixed assets on supplier credit	41	16	41	-	-
Conversion of debentures into shares of the Corporation and of a subsidiary	9	351	2	87	548

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 June 30, 2006 and for six-month and three-month periods 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. <u>Accounting Standard No. 20 (Revised) regarding the Accounting Treatment of Goodwill and Intangible Assets when Purchasing an Investee Company</u>

   Commencing 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.

   As of January 1, 2006, goodwill amortization in the amount of NIS 17 and NIS 8 for the six months and three months ended June 30, 2005, respectively, and in the amount of NIS 43 in respect of all of 2005, was discontinued.

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

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

2. <u>Accounting Standard No. 21 regarding Earnings per Share</u>

Commencing 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 are 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 the 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 was restated. The effect of initial implementation of the Standard amounted to an increase in the basic earnings per share in the amount of NIS 5.23 and NIS 1.12 for the six-month and three-month periods ended June 30, 2005 and NIS 7.43 for the year ended December 31, 2005, respectively, and an increase in the diluted earnings per share in the amount of NIS 4.12 and NIS 0.98 for the six-month and three-month periods ended June 30, 2005 and NIS 4.97 for the year ended December 31, 2005, respectively as a result of the manner of taking dilutive potential ordinary shares into account.

3. <u>Accounting Standard No. 22 regarding Financial Instruments: Disclosure and Presentation</u>

Commencing 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 method". 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 January 1, 2006 was NIS 4 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

Commencing January 1, 2006 the Corporation applies 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 3.3 million and NIS 1.6 million in the six-month and three-month periods ended June 30, 2006, respectively). 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 3D.

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

Commencing 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.

C. Disclosure of the effect of new accounting standard in the period prior to its application

Accounting Standard No. 29 regarding Adoption of International Financial Reporting Standards

In July 2006, the Israeli Accounting Standards Board published Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)" (hereinafter – "the Standard"). The Standard provides that entities subject to the Securities Law, 1968, that are required to report according to the regulations of this law, are to prepare their financial statements for periods beginning as from January 1, 2008 according to IFRS. The Standard permits early adoption as from financial statements published after July 31, 2006. That stated above does not apply to entities subject to the Securities Regulations (Periodic and Immediate Reports of a Foreign Entity), 2000, the financial statements of which are not prepared in accordance with Israeli GAAP. In addition, the Standard provides that entities that are not subject to the Securities Law, 1968 and not required to report according to the regulations of this law, are also permitted to prepare their financial statements according to IFRS commencing with financial statements published after July 31, 2006.

The initial adoption of IFRS will be effected in accordance with the provisions of IFRS 1, "Initial Implementation of IFRS", for purposes of the transition.

In accordance with the Standard, the Corporation is required to include in a note to the annual financial statements for December 31, 2007, the balance sheet data as at December 31, 2007 and the statement of operations data for the year then ended, that have been prepared according to the recognition, measurement and presentation principles of IFRS.

The Corporation is examining the implications of the transition to IFRS, including the possibility of early application of IFRS, but it is unable, at this stage, to assess the impact of adoption of IFRS on its financial statements.

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

Presented below are 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 six-month period ended June 30, 2006	**1.55**	**(3.54)**
During the six-month period ended June 30, 2005	0.50	6.17
During the three-month period ended June 30, 2006	**0.97**	**(4.82)**
During the three-month period ended June 30, 2005	1.10	4.88
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.

   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, $15.5 million par value debentures were converted into Tower shares.

2. 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.

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

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

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

C. The start of the payment period with respect to the principal payments will be deferred from July 2007 to a time not before 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.

E. As at the balance sheet date, the Corporation invested $19 million in the equipment and it is presented in the category "Investments in Investee Companies". Subsequent to the balance sheet date, the Corporation invested an additional $11 million.

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

5. In June 2006, pursuant to a public offering on the Tel-Aviv Stock Exchange, Tower raised the amount of $31 million. In the framework of the issuance, 78,000 units were sold at a price of 1,785 per unit. Each unit includes convertible debentures plus options for debentures and two types of warrants. The debentures carry a zero coupon and are scheduled for repayment in one lump-sum payment in December 2011, at a premium of 37% over their face value, linked to the Consumer Price Index. The debentures are convertible into ordinary shares of Tower at a rate of one ordinary share for every NIS 8.4 principal of debentures (subject to certain adjustments).

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

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

6. In the period of the report, the Corporation included its share in Tower's losses, in the amount of NIS 125 million, based on the rate of the Corporation's share in the additional investment as described in the agreements noted above.

7. 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 period of the report and in the fourth quarter of 2005, the Corporation acquired about 2.9% of the share capital of ICL for an aggregate consideration of NIS 694 million. The excess of the acquisition cost over the book value created on the acquisitions totaled NIS 469 million and was allocated mainly to fixed assets, a concession, inventory, deferred taxes and goodwill.

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. The Corporation set its investment in ORL at the value of the consideration received in the sale and, accordingly, no capital gain was realized with respect to the transaction.

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.

E. In the first quarter of 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.

F. In March 2006 the Corporation's Board of Directors decided to distribute a dividend in the amount of NIS 240 million (the dividend net of the share of the subsidiary amounts to NIS 238 million). The dividend was paid on April 14, 2006.

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

G. In the first quarter of 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 June 30, 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.

H. In the period of the report, ZIM signed agreements with a third party to acquire 4 container ships having a capacity of 8,200 containers, for a price of $121 million each, and 5 container ships having a capacity of 10,000 containers, for a price of $134 million each. The ships are scheduled to be delivered to ZIM in the years 2009–2010. The total cost of the acquisition amounts to $1.2 billion

In the period of the report, ZIM signed agreements with a third party for the lease of 6 container ships having a capacity of 4,250 containers for a period of 12 years, in exchange for lease fees of $23,000 per day for each ship. The ships are scheduled to be delivered to ZIM commencing from 2008.

The total cost of the lease fees in respect of these ships amounts to $600 million.

I. Subsequent to the balance sheet date, ZIM's Board of Directors approved an agreement for the lease of 4 ships, having a capacity of 6,350 containers each that were ordered in 2004 and that have not yet been constructed, to a third party, for a period of 5 years from the delivery date of the ships to ZIM upon their completion. 2 ships are owned by ZIM while 2 ships are leased to ZIM (from interested parties) for a period of 10 years. Delivery of the ships to ZIM and the lease thereof are expected to take place in the second half of 2008 and in the first half of 2009. The annual proceeds in a full lease year for all 4 ships amounts to $54 million. ZIM's annual pre-tax income in a full lease year for all the ships to be leased out is estimated at $12 million.

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

J. In the framework of agreements of ICL and its subsidiaries from July 2004 regarding securitization agreements for the sale of debts of customers to companies from RaboBank International, debts of customers in the amount of $197 million were sold in cash as at balance sheet date (June 30, 2005 – $199 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.

K. Subsequent to the balance sheet date, the Corporation raised the amount of NIS 650 million by means of a private offering of debentures to institutional investors. The debentures are repayable in four equal annual payments commencing from the year 2011 and bearing annual interest of 5.35%. The debentures were rated AA by "Ma'a lot, The Israeli Securities Rating Company".

Note 4 - Contingent Liabilities

A. During the period of the report, the United States Court of Appeals for the Second Circuit affirmed the prior decision to dismiss the claim against Tower, certain of its directors, Wafer partners and primary investors, including the Corporation, which was handed down by the District Court for the Southern District of New York in August 2004, relating to a claim from July 2003.

B. For additional 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										
	Potash	Phosphate	Eliminations	Total	Industrial Products	Performance products	Shipping	Energy	Other activities	Eliminations & unrelated expenses	Total consolidated
	(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 six-month period ended June 30, 2006											
Other operating sales and revenues, net:											
Unaffiliated customers	1,486	1,064	-	2,550	2,121	2,250	6,351	-	327	-	13,599
Inter-segment	307	162	(90)	379	26	32	58	-	121	(616)	-
Total other operating sales and revenues, net	1,793	1,226	(90)	2,929	2,147	2,282	6,409	-	448	(616)	13,599
Operating earnings	411	26	2	439	597	193	286	-	(60)	(23)	1,432
Group's equity in the net earnings (losses) of affiliates, net	-	-	-	-	-	-	14	5	(117)	-	(98)
For the six-month period ended June 30, 2005											
Other operating sales and revenues, net:											
Unaffiliated customers	2,115	1,064	-	3,179	1,646	1,369	6,054	-	388	-	12,636
Inter-segment	283	168	(80)	371	23	17	49	-	133	(593)	-
Total other operating sales and revenues, net	2,398	1,232	(80)	3,550	1,669	1,386	6,103	-	521	(593)	12,636
Operating earnings	675	63	2	740	302	154	384		23	(6)	1,597
Group's equity in the net earnings (losses) of affiliates, net	-	-	-	-	-	-	23	20	(51)	-	(8)

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
	(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 June 30, 2006											
Other operating sales and revenues, net:											
Unaffiliated customers	815	621	-	1,436	1,109	1,130	3,227	-	183	-	7,085
Inter-segment	151	82	(52)	181	12	22	28	-	60	(303)	-
Total other operating sales and revenues, net	966	703	(52)	1,617	1,121	1,152	3,255	-	243	(303)	7,085
Operating earnings	171	21	(4)	188	307	78	140	-	(36)	(10)	667
Group's equity in the net earnings (losses) of affiliates, net	-	-	-	-	-	-	6	-	(58)	-	(52)
For the three-month period ended June 30, 2005											
Other operating sales and revenues, net:											
Unaffiliated customers	1,082	617	-	1,699	856	706	3,213	-	184	-	6,658
Inter-segment	148	83	(42)	189	13	12	27	-	64	(305)	-
Total other operating sales and revenues, net	1,230	700	(42)	1,888	869	718	3,240	-	248	(305)	6,658
Operating earnings	341	36	1	378	152	77	169	-	10	4	790
Group's equity in the net earnings (losses) of affiliates, net	-	-	-	-	-	-	14	14	(46)	-	(18)

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
	(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
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	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)

* Restated – see Note 1B4.