Israel Corporation Limited

Financial Statements
As at September 30, 2006
(Unaudited)

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Contents

Directors' Report to the Shareholders of Israel Corporation Ltd.

For the Nine Months Ended September 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 September 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 September 30, 2006, amounted to NIS 26,649 million, compared with NIS 24,776 million, as at September 30, 2005.

– The working capital as at September 30, 2006 amounted to NIS 5,437 million, compared with working capital of NIS 4,439 million as at September 30, 2005.

– The balance of the long-term investments, loans and receivables as at September 30, 2006 amounted to NIS 884 million, compared with NIS 1,274 million as at September 30, 2005 (during the period of the report, the Corporation's holdings in Oil Refineries Ltd. were sold).

– The long-term liabilities, as at September 30, 2006, amounted to NIS 11,540 million, compared with NIS 9,911 million, as at September 30, 2005.

– The Corporation's shareholders' equity as at September 30, 2006 amounted to NIS 5,482 million, compared with NIS 5,170 million as at September 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 631 million, compared with earnings of NIS 1,369 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 $284 million compared with earnings of $340 million in the corresponding period last year.

B. ZIM Integrated Shipping Services Ltd. (hereinafter – "ZIM") finished the period of the report with earnings of $72 million, compared with earnings of $156 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, and income of $28 million stemming from revision of the income tax rates.

C. Tower Semiconductor Ltd. (hereinafter – "Tower") finished the period of the report with a loss of $49 million, compared with a loss of $158 million in the corresponding period last year.

   In the period of the report, Tower included non-recurring earning in the amount of $80 million as a result of restructuring its debts to banks. After eliminating the aforesaid income, the loss totals $129 million.

D. The results for the period of the report include non-recurring income, in the net amount of NIS 78 million, compared with non-recurring income in the net amount of NIS 390 million in the corresponding period last year.

E. The net financing expenses in the period of the report amounted to NIS 324 million, compared with expenses of NIS 118 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 third quarter period of the report with earnings of NIS 223 million, compared with NIS 563 million in the corresponding quarter last year.

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

A. ICL finished the third quarter with earnings of $95 million compared with earnings of $144 million in the corresponding quarter last year.

B. ZIM finished the third quarter with earnings of $28 million, compared with earnings of $62 million in the corresponding quarter last year.

C. Tower finished the third quarter with income of $39 million, compared with a loss of $55 million in the corresponding quarter last year. The results for the quarter included non-recurring earning in the amount of $80 million as a result of restructuring its debts to banks. After eliminating the aforesaid income, there was a loss of $41 million (see also the section on Tower).

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 as follows:

	NIS millions	Amortization period
Fixed assets	254	22 years
Other assets:		
Concession	160	25 years
Goodwill	140	
Other	8	8 years
Inventory	17	
Deferred taxes	(110)	
	469	

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. In the period of the report, the Corporation invested $100 million in Tower – see also the section on Tower.

D. In the period of the report, IDE Technologies Ltd., a subsidiary of ICL, received a notification from the Israeli government with respect to its winning a tender for planning, financing, construction and operation, under the B.O.T. method, of a water desalinization facility in the Hadera area having an annual output of 100 cubic meters.

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 $284 million, compared with earnings of $340 million in the corresponding period last year.

Sales of the ICL Group totaled $2,419 million in the period of the report, compared with $2,211 million in the corresponding period last year, an increase of 9.4%. 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 some 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 in the period of the report amounted to $842 million, a decline of 3.8% compared with the corresponding period last year. The gross profit for the period includes partial compensation received from the insurance company, in the amount of $29 million, in respect of lost profits due to flood damage in Sdom that occurred at the end of 2004. Last year, compensation in respect of this damage was recorded in the amount of $12 million.

The gross profit was negatively impacted, mainly, by a 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. The increase in the selling prices along with acquisition of the activities of Astris partly offset the erosion of the gross profit.

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.

At the end of July 2006, an agreement was signed with a major customer in China for sale of potash for the balance of 2006 at an increased price, and the shipments to the customer were resumed. In September 2006 an agreement was signed with the above-mentioned customer, under which ICL Fertilizers will supply more than 2 million tons of potash during a three-year period running from January 2007 through December 2009. This agreement reflects a 30% increase in the quantity of potash compared with the prior agreement, which is scheduled to expire at the end of 2006. The potash prices will be determined between the parties at the beginning of each calendar year.

In August and September 2006, ICL Fertilizers signed agreements with its major customers in India for supply of more than 800 thousand tons of potash during a nine-month period running from August 2006 to April 2007.

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.

The activities of ICL Performance Products are affected by the increase in competition in some of the target markets, as well as from the effect of the exchange rate of the euro vis-à-vis the dollar. The acquisition in November 2005 of the assets and activities of Astris in America made ICL Performance Products a leader in the area of special phosphates.

An increase in the energy prices and a 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 $25 million, compared with $3 million in the corresponding period last year. In the corresponding period last year, ICL realized income from exchange rate differences, in the amount of $17 million, compared with $5 million in the period of the report. 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.

Other income includes the amount of $10 million in respect of update of the provisions for retirement of employees, which was recorded in the third quarter of the period of the report.

ICL finished the third quarter of the period of the report with net earnings of $95 million, compared with earnings of $144 million in the corresponding quarter last year.

The ICL Group's sales in the third quarter totaled $854 million, compared with $727 million in the corresponding quarter last year – an increase of 17%. The increase derives, mainly, from inclusion of the sales of Astris and price increases in some of the activity sectors.

The decline in sales in the fertilizers sector, increase in the energy prices, increase in the prices of some of the raw materials, and upward revaluation of the shekel vis-à-vis the dollar gave rise to a decline in gross profit in the third quarter of the period of the report, compared with the corresponding quarter last year.

The gross profit in the third quarter includes partial compensation received from the insurance company in the amount of $13 million, in respect of lost profits due to flood damage in Sdom that occurred at the end of 2004. In the corresponding quarter last year, compensation in respect of this damage was recorded in the amount of $12 million.

ZIM INTEGRATED SHIPPING SERVICES LTD.

ZIM finished the period of the report with earnings of $72 million compared with earnings of $156 million in the corresponding period last year. Last year, non-recurring earnings of $59 million were included, composed of a net capital gain from sale of ships, in the amount of $31 million and revision of the Income Tax Ordinance, which produced a tax benefit in the amount of $28 million.

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

	Nine Months Ended September 30		Three Months Ended September 30	
	2006	2005	2006	2005
	Millions of Dollars		Millions of Dollars	
Revenues from shipping and accompanying services	2,175	2,128	778	736
Operating expenses and cost of services	1,943	1,861	695	641
Depreciation	54	53	19	18
Gross profit	178	214	64	77
Administrative and general expenses	79	73	27	23
Operating earnings	99	141	37	54
Taxes on income (tax benefit)	24	24	9	(14)
Capital gain from sale of ships, net of tax effect	–	31	–	–
Net earnings for the period	72	156	28	62

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

	Nine Months Ended September 30		Three Months Ended September 30	
	2006	2005	2006	2005
	Millions of Dollars		Millions of Dollars	
Cash provided by operating activities	39	176	28	63
Acquisition of ships, investments and fixed assets	(314)	(102)	(265)	(12)
Proceeds from sale of ships, investments and fixed assets	23	130	5	7
Cash provided by (used in) financing activities	223	(32)	275	51

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

	September 30	
	2006	2005
	Millions of Dollars	
Total financial liabilities	908	719
Total monetary assets	390	411
Shareholders' equity	576	498
Total assets	1,993	1,688

ZIM's revenues in the period of the report from shipping and accompanying services amounted to $2,175 million compared with $2,128 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, the average shipping price per container declined from $1,269 to $1,254. In addition, there was a decline in the total number of containers shipped from 1,535 thousand to 1,525 thousand.

The operating expenses and costs of services increased in the period of the report, mainly due to an increase in fuel prices at the average rate of 41%, compared with corresponding period last year.

ZIM INTEGRATED SHIPPING SERVICES LTD. (CONT'D)

In the third quarter of the period of the report, the total revenues from shipping and accompanying services amounted to $778 million compared with $736 million in the corresponding quarter last year. The increase derives, mainly, from an increase in shipping fees and an increase in demurrage fees along with an increase in the income earned by the subsidiaries. The average shipping price per container declined in the quarter by 2.7%, compared with the corresponding quarter last year whereas the total number of containers shipped increased from 501 thousand to 521 thousand in the third quarter of the period of the report.

The fuel prices increased by an average of 29% over the corresponding quarter last year.

<u>Acquisition of Equipment by ZIM</u>

– 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.

– In the period of the report, ZIM's Board of Directors approved 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 first 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.

Subsequent to the balance sheet date, ZIM raised $115 million by means of a private offering of debentures to institutional investors. The debentures are linked to the Consumer Price Index, bear annual interest of approximately 5.45%.

TOWER SEMICONDUCTOR LTD.

Tower finished the period of the report with a loss of $49 million, compared with a loss of $158 million in the corresponding period last year. In the period of the report, Tower included non-recurring earning in the amount of $80 million as a result of restructuring its debts to banks. After eliminating the aforesaid non-recurring income, the loss totals $129 million, which is a decline of 18% in the loss compared with the corresponding period last year.

During the period of the report, Tower's sales totaled $132 million, compared with $71 million in the corresponding period last year, an increase of 86%. In the third quarter of the period of the report, the sales amounted to $52 million, compared with $21 million in the corresponding quarter last year – an increase of 147%.

The cost of sales in the period of the report amounted to $195 million, compared with $180 million in the corresponding period last year, an increase of only 8%.

1. 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, $16.4 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 August 2006, Tower and the lending banks signed an amendment to the credit facility based on the memorandum of understanding signed in May 2006, to restructure Tower's long-term liabilities to the banks, in the amount of $527 million. The transaction was completed at the end of the third quarter. Pursuant to this agreement:

   A. 30% of the debt was converted into non-interest bearing convertible perpetual capital notes. The capital notes are convertible into 52 million shares of Tower.

   B. The interest rate payable on the debt was reduced by the rate of 1.4%. With respect to the reduced amount of the interest for the years 2006–2010, the banks will receive shares in 2011 pursuant a formula set forth in the agreement.

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

   D. The financial covenants were revised.

   With respect to this matter, Israel Corporation invested $100 million in Tower in non-interest bearing convertible perpetual capital notes. The capital notes are convertible into 66 million Tower shares.

4. Up to the time of the signing of an agreement covering Israel Corporation's investment in the capital notes, as noted above, Israel Corporation ordered equipment in accordance with Tower's plan for equipping FAB2, in the amount of $45 million.

   On the date of the investment in the capital notes, the equipment will be sold to Tower at a price of cost plus expenses.

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 NIS 1,785 per unit. Each unit includes convertible debentures plus options for debentures and two types of options for shares. 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).

   In the period of the report, 0.4 million options were exercised for debentures and 0.4 million options were exercised for shares.

6. For purposes of implementation of the equity method with respect to its investment in Tower, the Corporation relates to the perpetual convertible capital notes issued to the Corporation and the banks as part of restructuring of the loans, as ordinary shares, since essentially they constitute ordinary shares, inasmuch as they may be converted at any time, bear no interest, may not be redeemed and at the time of liquidation they have the same rights as Tower's ordinary shares.

   As a result of the Corporation's investment in Tower, which was made concurrent with the reorganization of the loans from the banks, its rate of holdings in Tower rose from 16.9% to 39.3%, and negative excess cost was created for it in the amount of NIS 30 million. The excess cost, as stated, has not yet been allocated to the identified assets and liabilities.

7. In the period of the report, the Corporation included its share of Tower's losses in the amount of NIS 202 million, in accordance with the rate of its share in each layer of financing used to finance Tower's activities, and in accordance with the inferiority rank of the layers.

8. In November 2005, Tower raised the amount of $ 21 million in two private placement of 12 million shares and 5 million share options. As a result of the issuance, the holding of the Company in Tower decreased from 39.3% to 37.1% and it will recognize a capital gain in the amount of NIS 19 million.

9. 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 September 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 3,404 million.

The investments of the Corporation and of the Headquarters Companies in liquid assets, as at the balance sheet date, amounted to NIS 1,920 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.

In the period of the report, the Corporation raised the amount of NIS 650 million by means of a private offering of debentures to institutional investors. The debentures are linked to the CPI and 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".

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 linked to the CPI and are repayable in four equal annual payments commencing from the year 2011 and bearing annual interest of 5%. The debentures were rated AA by "Ma'a lot, The Israeli Securities Rating Company".
The Corporation entered into a SWAP transaction for exchange of an amount of NIS 200 million for a dollar liability.

Subsequent to the balance sheet date, the Corporation received a loan in the amount of $50 million, repayable in 10 equal semi-annual payments commencing with June 2009.

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 net 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 October 2006, the Corporation approved distribution of a dividend in the net amount of NIS 59.5 million. The dividend was distributed on October 4, 2006.

6. 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.

7. 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 September 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.

8. 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.

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

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

11. 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.

12. In November 2006, the Corporation signed a non-binding memorandum of understanding for acquisition of 49.9% of the shares of a company operating in the area of manufacture and trade of unprocessed oil, which is located in the Eastern Europe, in exchange for an investment of $132 million.

    The transaction is subject to a due diligence examination, the signing of an agreement between the parties and approval of the Corporation's Board of Directors.

13. In November 2006, ZIM signed an agreement for setting up a joint venture in China (hereinafter – "the Joint Venture"), the activity of which is the establishment and operation of about 18 terminals for cargo trains (carrying containers) in China.

    ZIM's share in the joint venture is 8%, in exchange for an investment of about $ 44 million. The investment in the joint venture is scheduled to be made in stages up to the end of 2008.

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**

November 23, 2006

The Board of Directors
Israel Corporation Limited

Dear Sirs:

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

At your request, we have reviewed the interim consolidated balance sheet of Israel Corporation Ltd. as at September 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 nine-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 4.6% of the total assets included in the interim consolidated balance sheet as at September 30, 2006 and whose revenues constitute 4.5% and 4.1% of the total consolidated revenues included in the interim statements of earnings for the nine-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, 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.)

November 23, 2006

Consolidated Balance Sheets as at

	As at September 30		As at December 31
	2006	2005	2005
	In reported amounts		
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets			
Cash and cash equivalents	**1,319**	1,735	1,323
Marketable securities	**2,423**	2,043	2,206
Short-term loans and deposits	**404**	488	376
Trade receivables	**3,284**	3,080	3,448
Other receivables	**995**	771	739
Inventory	**3,256**	2,657	3,042
	11,681	10,774	11,134
Long-term investments, loans and receivables			
Investments in investee companies	**477**	861	887
Investments in other companies	**31**	26	26
Long-term deposits, loans and receivables	**216**	193	161
Deferred taxes	**29**	73	26
Non-current inventory	**131**	121	133
	884	1,274	1,233
Fixed assets	**12,788**	11,807	12,271
Other assets and deferred expenses	**1,296**	862	1,189
Assets attributable to discontinued operations	**-**	59	-
	26,649	24,776	25,827

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

November 23, 2006

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

	As at September 30		As at December 31
	2006	2005	2005
	In reported amounts		
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current liabilities			
Short-term credit from banks and others	**2,016**	2,265	1,748
Trade payables	**2,145**	1,889	2,222
Proposed dividend payable	**59**	-	-
Other payables	**2,024**	2,181	2,396
	6,244	6,335	6,366
Long-term liabilities			
Long-term liabilities to banks and others	**5,738**	5,545	5,362
Provision for reclamation and disposal of waste	**101**	128	98
Debentures	**2,818**	1,401	2,224
Deferred taxes	**1,725**	1,609	1,652
Debentures convertible into shares of the Corporation	**1**	-	-
Liabilities for employee severance benefits, net	**1,157**	1,228	1,271
	11,540	9,911	10,607
Debentures convertible into shares of the Corporation	**-**	17	8
Minority interest	**3,383**	3,302	3,448
Liabilities attributable to discontinued operations	-	41	-
Shareholders' equity	**5,482**	5,170	5,398
	26,649	24,776	25,827

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

Consolidated Statements of Earnings for the

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2006	**2005**	**2006**	**2005**	**2005**
			In reported amounts		
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Sales, shipping and services	**20,779**	19,277	**7,180**	6,641	26,405
Cost of sales, shipping and services	**16,240**	14,490	**5,618**	4,956	20,069
Gross profit	**4,539**	4,787	**1,562**	1,685	6,336
Selling, transport and marketing expenses	**1,476**	1,394	**548**	431	1,871
General and administrative expenses	**801**	*717	**262**	*243	*1,002
Research and development expenses, net	**118**	103	**40**	35	136
	2,395	2,214	**850**	709	3,009
Operating earnings	**2,144**	2,573	**712**	976	3,327
Financing expenses, net	**(324)**	(118)	**(89)**	(57)	(237)
Other income (expenses), net	**105**	262	**68**	(27)	125
Earnings before income taxes	**1,925**	2,717	**691**	892	3,215
Income tax	**(578)**	(563)	**(225)**	(1)	(621)
Earnings after income taxes	**1,347**	2,154	**466**	891	2,594
Group's equity in income (losses) of affiliates, net	**(157)**	***(8)	**(59)**	6	(80)
Minority interest in earnings of subsidiaries, net	**(583)**	(777)	**(184)**	(334)	(929)
Net earnings before cumulative effect	**607**	1,369	**223**	563	1,585
Cumulative effect as at the beginning of the year of change in accounting method	**24**	-	**-**		-
Net earnings for the period	**631**	* 1,369	**223**	* 563	* 1,585
Basic earnings per ordinary share	**NIS**	**NIS**	**NIS**	**NIS**	**NIS**
Before cumulative effect of change in accounting method	**79.61**	** 188.48	**29.22**	** 74.68	**218.11
Cumulative effect of change in accounting method	**3.10**	-	**-**	-	-
	82.71	188.48	**29.22**	74.68	218.11
Diluted earnings per ordinary share					
Before cumulative effect of change in accounting method	**79.11**	** 185.40	**29.09**	** 74.31	** 215.65
Cumulative effect of change in accounting method	**3.09**	-	**-**	-	-
	82.20	189.40	**29.09**	74.31	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
			In reported amounts		
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the nine-month period ended September 30, 2006 (unaudited)					
Balance as at the beginning of the period	1,907	34	238	* 3,219	* 5,398
Net earnings for the period	-	-	-	631	631
Dividend paid	-	-	(238)	-	(238)
Proposed dividend	-	-	-	(59)	(59)
Adjustments from translation of financial statements	-	(271)	-	-	(271)
Conversion of debentures into shares	9	-	-	-	9
Shares and options issued to employees	12	-	-	-	12
Balance as at the end of the period	1,928	(237)	-	3,791	5,482
For the nine-month period ended September 30, 2005 (unaudited)					
Balance as at the beginning of the period	1,503	(58)	220	1,947	3,612
Net earnings for the period	-	-	-	* 1,369	*1,369
Dividend paid	-	-	(220)	(75)	(295)
Adjustments from translation of financial statements	-	94	-	-	94
Conversion of debentures into shares	189	-	-	-	189
Exercise of options	199	-	-	-	199
Options issued to employees	*2	-	-	-	*2
Balance as at the end of the period	* 1,893	36	-	* 3,241	* 5,170

* 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
			In reported amounts		
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the three-month period ended September 30, 2006 (unaudited)					
Balance as at the beginning of the period	1,926	(87)	-	3,627	5,466
Net earnings for the period	-	-	-	223	223
Proposed dividend	-	-	-	(59)	(59)
Adjustments from translation of financial statements	-	(150)	-	-	(150)
Options issued to employees	2	-	-	-	2
Balance as at the end of the period	1,928	(237)	-	3,791	5,482
For the three-month period ended September 30, 2005 (unaudited)					
Balance as at the beginning of the period	1,886	21	75	2,678	4,660
Net earnings for the period	-	-	-	*563	*563
Dividend paid	-	-	(75)	-	(75)
Adjustments from translation of financial statements	-	15	-	-	15
Conversion of debentures into shares	5	-	-	-	5
Options issued to employees	* 2	-	-	-	*2
Balance as at the end of the period	* 1,893	36	-	* 3,241	* 5,170

* 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
			In 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 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 nine months ended		For the three months ended		For the year ended
	September 30 2006	September 30 2005	September 30 2006	September 30 2005	December 31 2005
	In reported amounts				
	(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	**631**	* 1,369	**223**	* 563	* 1,585
Adjustments to reconcile net earnings to net cash flows generated by operating activities (A)	**699**	482	**404**	122	1,751
Net cash inflow generated by operating activities	**1,330**	2,211	**627**	685	3,336
Cash flows generated by investing activities:					
Investments in investee and other companies	**(1,081)**	(26)	**(426)**	-	(156)
Acquisition of fixed and other assets	**(1,817)**	(998)	**(1,284)**	(250)	(1,264)
Long-term loans granted	**(34)**	(61)	**(28)**	(21)	(155)
Acquisition of marketable securities, net	**(226)**	(1,130)	**(8)**	(598)	(1,283)
Investment grant in respect of fixed assets	**14**	26	**-**	13	34
Proceeds from sale of fixed and other assets	**118**	578	**30**	32	604
Collection of long-term loans	**27**	28	**8**	7	42
Short-term investments, net	**(67)**	148	**(29)**	30	271
Proceeds from sale of investments in investee and other companies	**579**	38	**-**	36	75
Acquisition of initially consolidated subsidiaries (B)	**6**	(35)	**3**	(35)	(1,286)
Proceeds from sale of investments in previously consolidated companies (C)	**21**	-	**21**	-	-
Net cash outflow generated by investing activities	**(2,460)**	(1,432)	**(1,713)**	(786)	(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 nine months ended		For the three months ended		For the year ended
	September 30 2006	September 30 2005	September 30 2006	September 30 2005	December 31 2005
	In reported amounts				
	(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	**94**	200	**1**	1	203
Dividend paid	**(238)**	(295)	**-**	(75)	(295)
Dividend paid to minority shareholders of subsidiaries	**(386)**	(211)	**(187)**	(134)	(219)
Issuance of convertible debentures and receipt of long-term loans	**2,705**	2,978	**1,881**	1,209	5,281
Repayment of long-term liabilities	**(1,174)**	(2,659)	**(117)**	(255)	(4,763)
Receipt (repayment) of short-term loans, net	**190**	(343)	**38**	(42)	(389)
Net cash inflow (outflow) generated by financing activities	**1,191**	(330)	**1,616**	704	(182)
Translation differences in respect of cash balances in autonomous investees	**(65)**	69	**(32)**	3	70
Increase (decrease) in cash and cash equivalents	**(4)**	518	**498**	606	106
Balance of cash and cash equivalents at the beginning of the period	**1,323**	1,217	**821**	1,129	1,217
Balance of cash and cash equivalents at the end of the period	**1,319**	1,735	**1,319**	1,735	1,323

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

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

	For the nine months ended		For the three months ended		For the year ended
	September 30 2006	September 30 2005	September 30 2006	September 30 2005	December 31 2005
	In reported amounts				
	(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 operating activities					
Income and expenses not involving cash flows:					
Group's equity in results of affiliates, net, less dividend	**287**	**51	**62**	5	130
Minority interest in earnings of subsidiaries, net	**583**	777	**184**	334	929
Depreciation and amortization	**858**	805	**289**	271	1,221
Deferred taxes, net	**(10)**	56	**(25)**	(203)	125
Capital gains, net	**(22)**	(309)	**(3)**	(11)	(313)
Erosion of short and long-term loans granted and increase in value of marketable securities, net	**2**	(37)	**(11)**	(26)	(52)
Erosion of loans received and of short-term and long-term liabilities, net	**5**	(13)	**(5)**	6	4
Increase (decrease) in liability for employee severance benefits, net	**(64)**	-	**(23)**	15	47
Expense in respect of shares and options issued to employees	**24**	* 2	**2**	* 2	* 4
Cumulative effect of change in accounting method	**(24)**	-	**-**	-	-
	1,639	1,332	**470**	393	2,095
Changes in asset and liability items:					
Decrease (increase) in trade and other receivables	**(230)**	(152)	**(253)**	41	(161)
Decrease (increase) in inventories	**(389)**	(281)	**4**	(139)	(404)
Decrease in uncompleted voyages, net	**(209)**	(299)	**(6)**	(297)	(216)
Increase (decrease) in trade and other payables	**(117)**	237	**186**	122	461
Increase (decrease) in provision for reclamation and disposal of waste	**5**	5	**3**	2	(24)
	(940)	(490)	**(66)**	(271)	(344)
	(699)	842	**404**	122	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 nine months ended		For the three months ended		For the year ended
	September 30 2006	September 30 2005	September 30 2006	September 30 2005	December 31 2005
	In reported amounts				
	(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)	**22**	32	**14**	32	(293)
Investment in affiliated company that became a subsidiary	**-**	-	**-**	-	19
Fixed assets, other assets and long-term receivables	**(24)**	(73)	**(10)**	(73)	(1,018)
Long-term liabilities and minority interest, net	**8**	6	**(1)**	6	6
	6	(35)	**3**	(35)	(1,286)
C. Proceeds from sale of investments in previously consolidated companies					
Working capital (excluding cash and cash equivalents)	**14**	-	**14**	-	-
Fixed assets, net	**8**	-	**8**	-	-
Other assets	**5**	-	**5**	-	-
Capital loss on sale of investment in subsidiary	**(6)**	-	**6**	-	-
	21	-	**21**	-	-
D. Non-cash transactions					
Acquisition of fixed assets on supplier credit	**21**	15	**21**	-	-
Conversion of debentures into shares of the Corporation and of a subsidiary	**-**	357	**-**	5	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 September 30, 2006 and for nine-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. Accounting Standard No. 20 (Revised) regarding the Accounting Treatment of Goodwill and Intangible Assets when Purchasing an Investee Company

   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 27 and NIS 10 for the nine months and three months ended September 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. Accounting Standard No. 21 regarding Earnings per Share

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 6.70 and NIS 0.24 for the nine-month and three-month periods ended September 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 3.62 for the nine-month period ended September 30, 2005 and a decrease in the diluted earnings per share in the amount of NIS 0.13 for three-month period ended September 30, 2005 (including the restatement presented in accordance with that stated in Section 4., above) and NIS 4.97 per share 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

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 5.0 million and NIS 1.6 million in the nine-month and three-month periods ended September 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 by NIS 2.5 million for the nine-month and the three-month periods ended September 30, 2005 and NIS 4.1 million for the year ended December 31, 2005

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 standards in the period prior to their application

1. 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, however it is unable, at this stage, to assess the impact of adoption of IFRS on its financial statements.

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

C. Disclosure of the effect of new accounting standards in the period prior to their application (cont'd)

2. Accounting Standard No. 26 regarding "Inventory"

In August 2006 the Israeli Accounting Standards Board published Accounting Standard No. 26, "Inventory" (hereinafter – "the Standard"). The Standard provides guidelines for determining the cost of inventory and its subsequent recognition as an expense as well as for determining the amount of the impairment in order to adjust the inventory to net realizable value. The Standard also provides guidelines regarding cost formulas used to allocate costs to various types of inventory. The Standard will apply to financial statements for periods beginning on January 1, 2007 or thereafter. The Corporation is examining the impact of the Standard on its financial statements.

3. Accounting Standard No. 27 regarding "Fixed Assets"

In September 2006 the Israeli Accounting Standards Board published Accounting Standard No. 27, "Fixed Assets" (hereinafter – "the Standard"). The Standard prescribes rules for the presentation, measurement and elimination of fixed-asset items and for the disclosure required in respect thereof. The Standard provides, inter alia, that upon the initial recognition of a fixed-asset item, the entity shall estimate and include in the cost of the item all the costs it will incur in respect of an obligation to dismantle and remove the item and to restore the site on which it was located. Furthermore, the Standard provides that a group of similar fixed-asset items shall be measured at cost net of accumulated depreciation, and less impairment losses, or alternatively, at its revalued amount less accumulated depreciation, while an increase in the value of the asset above its initial cost as a result of the revaluation will be recorded directly to shareholders' equity in a revaluation reserve. Any part of a fixed-asset item having a cost that is significant in relation to the total cost of the item shall be depreciated separately, including the costs of significant periodic examinations. The Standard also provides that a fixed asset that was acquired in exchange for another non-monetary item in a transaction that is commercial in nature shall be measured at fair value.

The Standard applies to financial statements for periods beginning on January 1, 2007. An entity that on January 1, 2007 chooses for the first time to use the revaluation method for measuring fixed assets, shall on this date recognize a revaluation reserve in the amount of the difference between the revalued amount of the asset on that date and its cost on the books. Furthermore, an entity that in the past, upon the initial recognition of a fixed asset, had not included in its cost the initial estimate of costs for dismantling and removing the asset and for restoring the site on which it is located, shall measure these costs as follows:

A. The aforementioned liabilities as at January 1, 2007 should be measured in accordance with generally accepted accounting principles;

B. The amount that would have been included in the cost of the relevant asset on the date on which the liability was initially incurred should be capitalized to the amount of the liability mentioned in item (a) above to the date on which the liability was initially incurred (hereinafter – "the Capitalized Amount");

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

C. Disclosure of the effect of new accounting standards in the period prior to their application (cont'd)

3. Accounting Standard No. 27 regarding "Fixed Assets" (cont'd)

C. The accumulated depreciation on the Capitalized Amount as at January 1, 2007 should be measured on the basis of the useful life of the asset as at that date;

D. The difference between the amount to be charged to the asset in accordance with items (b) and (c) above, and the amount of the liability in accordance with item (a) above, shall be included in retained earnings.

Other than the mentioned above, the Standard will be adopted on a retroactive basis.

The Corporation is examining the effect of the Standard on its financial statements, however it is unable, at this stage, to assess the impact of the initial implementation of Standard 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 nine-month period ended September 30, 2006	**0.78**	**(6.54)**
During the nine-month period ended September 30, 2005	1.89	6.73
During the three-month period ended September 30, 2006	**0.76**	**(3.11)**
During the three-month period ended September 30, 2005	1.38	0.52
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 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, $16.4 million par value debentures were converted into Tower shares.

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

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

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 August 2006, Tower and the lending banks signed an amendment to the credit facility based on the memorandum of understanding signed in May 2006, to restructure Tower's long-term liabilities to the banks, in the amount of $527 million. The transaction was completed at the end of the third quarter. Pursuant to this agreement:

   A. 30% of the debt was converted into non-interest bearing convertible perpetual capital notes. The capital notes are convertible into 52 million shares of Tower.

   B. The interest rate payable on the debt was reduced by the rate of 1.4%. With respect to the reduced amount of the interest for the years 2006–2010, the banks will receive shares in 2011 pursuant a formula set forth in the agreement.

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

   D. The financial covenants were revised.

   With respect to this matter, Israel Corporation invested $100 million in Tower in non-interest bearing convertible perpetual capital notes. The capital notes are convertible into 66 million Tower shares.

4. Up to the time of the signing of an agreement covering Israel Corporation's investment in the capital notes, as noted above, Israel Corporation ordered equipment in accordance with Tower's plan for equipping FAB2, in the amount of $45 million.

   On the date of the investment in the capital notes, the equipment will be sold to Tower at a price of cost plus expenses.

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 NIS 1,785 per unit. Each unit includes convertible debentures plus options for debentures and two types of options for shares. 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).

   In the period of the report, 0.4 million options were exercised for debentures and 0.4 million options were exercised for shares.

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

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

6. For purposes of implementation of the equity method with respect to its investment in Tower, the Corporation relates to the perpetual convertible capital notes issued to the Corporation and the banks as part of reorganization of the loans, as ordinary shares, since essentially they constitute ordinary shares, inasmuch as they may be converted at any time, bear no interest, may not be redeemed and at the time of liquidation they have the same rights as Tower's ordinary shares.

   As a result of the Corporation's investment in Tower, which was made concurrent with the reorganization of the loans from the banks, its rate of holdings in Tower rose from 16.9% to 39.3%, and negative excess cost was created for it in the amount of NIS 30 million. The excess cost, as stated, has not yet been allocated to the identified assets and liabilities.

7. In the period of the report, the Corporation included its share of Tower's losses in the amount of NIS 202 million, in accordance with the rate of its share in each layer of financing used to finance Tower's activities, and in accordance with the inferiority rank of the layers.

8. In November 2005, Tower raised the amount of $21 million in two private placement of 12 million shares and 5 million share options. As a result of the issuance, the holding of the Company in Tower decreased from 39.3% to 37.1% and it will recognize a capital gain in the amount of NIS 19 million.

9. 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 as follows:

	NIS millions	**Amortization period**
Fixed assets	254	22 years
Other assets:		
Concession	160	25 years
Goodwill	140	
Other	8	8 years
Inventory	17	
Deferred taxes	(110)	
	469	

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

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

E. ICL included in the "cost of sales" category, the amount $29.1 million received from an insurance company (of which $12.7 million was received in the period of the report) constituting, in ICL's estimation, partial compensation for lost profits and damage to property as a result of the flood damages in Sdom in 2004.

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.

G. In September 2006 the Corporation's Board of Directors decided to distribute a dividend in the amount of NIS 60 million (the dividend net of the share of the subsidiary amounts to NIS 59.5 million). The dividend was paid on October 4, 2006.

H. 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 September 30, 2006, ZIM is in compliance with the limitations determined.

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

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.

I. 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.

J. In the period of the report, 4 ships, having a capacity of 6,350 containers each that were ordered in 2004 and that have not yet been constructed, were leased 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 first 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.

K. 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 $196 million were sold in cash as at balance sheet date (September 30, 2005 – $169 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 3 - Investments and Supplementary Information (cont'd)

L. In the period of the report, 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".

M. In November 2006, 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%. The debentures were rated AA by "Ma'a lot, The Israeli Securities Rating Company".

N. In October 2006, ZIM raised $115 million by means of a private offering of debentures to institutional investors. The debentures are linked to the Consumer Price Index, bear annual interest of approximately 5.45%, and are repayable in three equal annual installments commencing from 2013.

O. In November 2006, the Corporation signed a non-binding memorandum of understanding for acquisition of 49.9% of the shares of a company operating in the area of manufacture and trade of unprocessed oil, which is located in the Eastern Europe, in exchange for an investment of $132 million.

The transaction is subject to a due diligence examination, the signing of an agreement between the parties and approval of the Corporation's Board of Directors.

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									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 nine-month period ended September 30, 2006											
Other operating sales and revenues, net:											
Unaffiliated customers	**2,353**	**1,739**	**-**	**4,092**	**2,968**	**3,451**	**9,743**	**-**	**525**	**-**	**20,779**
Inter-segment	**461**	**228**	**(129)**	**560**	**37**	**56**	**81**	**-**	**179**	**(913)**	**-**
Total other operating sales and revenues, net	**2,814**	**1,967**	**(129)**	**4,652**	**3,005**	**3,507**	**9,824**	**-**	**704**	**(913)**	**20,779**
Operating earnings	**639**	**59**	**6**	**704**	**800**	**312**	**450**	**-**	**(93)**	**(29)**	**2,144**
Group’s equity in the net earnings (losses) of affiliates, net	**-**	**-**	**-**	**-**	**-**	**-**	**25**	**5**	**(187)**	**-**	**(157)**
For the nine-month period ended September 30, 2005											
Other operating sales and revenues, net:											
Unaffiliated customers	3,174	1,610	-	4,784	2,519	2,056	9,362	-	556	-	19,277
Inter-segment	448	252	(130)	570	30	32	79	-	204	(915)	-
Total other operating sales and revenues, net	3,622	1,862	(130)	5,354	2,549	2,088	9,441	-	760	(915)	19,277
Operating earnings	1,164	67	-	1,231	490	218	629	-	27	(22)	2,573
Group’s equity in the net earnings (losses) of affiliates, net	-	-	-	-	-	-	46	56	(110)	-	(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)
	In reported amounts										
	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 September 30, 2006											
Other operating sales and revenues, net:											
Unaffiliated customers	**867**	**675**	**-**	**1,542**	**847**	**1,201**	**3,392**	**-**	**198**	**-**	**7,180**
Inter-segment	**154**	**66**	**(39)**	**181**	**11**	**24**	**23**	**-**	**58**	**(297)**	**-**
Total other operating sales and revenues, net	**1,021**	**741**	**(39)**	**1,723**	**858**	**1,225**	**3,415**	**-**	**256**	**(297)**	**7,180**
Operating earnings	**228**	**33**	**4**	**265**	**203**	**119**	**164**	**-**	**(33)**	**(6)**	**712**
Group's equity in the net earnings (losses) of affiliates, net	**-**	**-**	**-**	**-**	**-**	**-**	**11**	**-**	**(70)**	**-**	**(59)**
For the three-month period ended September 30, 2005											
Other operating sales and revenues, net:											
Unaffiliated customers	1,059	546	-	1,605	873	687	3,308	-	168	-	6,641
Inter-segment	165	84	(50)	199	7	15	30	-	71	(322)	-
Total other operating sales and revenues, net	1,224	630	(50)	1,804	880	702	3,338	-	239	(322)	6,641
Operating earnings	489	4	(2)	491	188	64	245	-	4	(16)	976
Group's equity in the net earnings (losses) of affiliates, net	-	-	-	-	-	-	23	36	(53)	-	6

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
	In 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	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.