



# **EXPANDING HORIZONS**ANNUAL REPORT 2007



# A DECADE OF VALUE CREATION: ACCELERATED GROWTH & INVESTMENT

Israel Corporation Ltd. ("Israel Corp.") is Israel's largest holding company - a global player with 50% of its manufacturing activities and close to 70% of its consolidated revenues derived from worldwide operations. Its core holdings focus on industries that meet basic human, industrial, and economic needs: fertilizers and specialty chemicals, energy, shipping and transportation. The Company's vision and execution capabilities, sound strategy, financial strength and worldwide presence provide it with a strong platform for growing its portfolio, identifying opportunities and making new investments.

Israel Corp.'s investment philosophy is focused on taking advantage of opportunities in fast growing, emerging markets such as China, India, and Latin America, and on high growth industries and sectors. Over the past thirty years, Israel Corp. has also played a pivotal role in the privatization of government-owned enterprises, transforming them into multi-billion dollar global companies that are among the most innovative, profitable and responsible of their respective peer groups.

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Israel Corp.'s experienced management team plays an active role in managing its portfolio companies, working closely with their managements to achieve market leadership, expand globally, streamline operations, and enhance profitability. The Company is a long-term, value-focused investor with a strong reinvestment approach that balances the pursuit of economic value with environmental and social responsibility.

**ECONOMIC VALUE** 

FINDING THE BALANCE

ENVIRONMENTAL

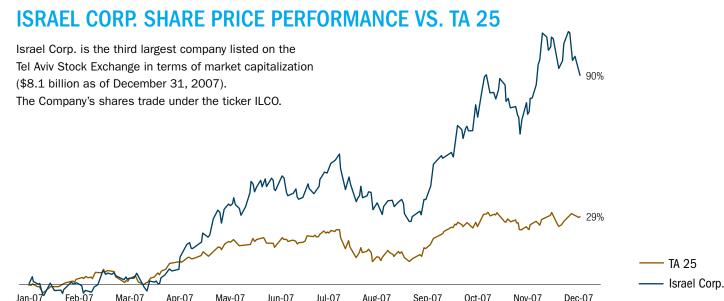
**RESPONSIBILITY** 

**SOCIAL** 

RESPONSIBILITY

#### Israel Corp.'s primary holdings include:

- Israel Chemicals (ICL) (52.3%), a leading global fertilizers and specialty chemicals producer
- Zim Integrated Shipping Services (ZIM) (98.3%), one of the world's largest container shipping and door-to-door service companies
- Oil Refineries (ORL) (45.1%), Israel's largest integrated refinery and petrochemicals producer
- Inkia Energy (100%), a prominent Latin American power generation company
- Tower Semiconductor (33.1%), an independent specialty foundry engaged in the manufacture of customized integrated circuits (ICs)
- Chery Quantum Auto Co. (45.0%), a joint venture with Chery Automobile, China's largest independent car manufacturer
- Project Better Place (33.3%), a global developer of electric recharge grids supporting electric vehicles (EVs)
- IC Green Energy (100%), a company focused on renewable energy projects and technologies



#### SELECTED FINANCIAL DATA OF MAIN HOLDINGS 1

	Israel Corp. <sup>2</sup>		ICL		ORL <sup>2,3</sup>		Zim	
In US\$ Million	2007	2006	2007	2006	2007	2006	2007	2006
Revenues	10,711	6,313	4,100	3,258	5,179	4,673	3,809	3,058
Operating Profit	818	630	715	536	263	187	46	113
Net Profit	166	192	536	374	168	121	28	80
Total Assets	12,947	6,752	4,633	3,608	3,139	2,331	3,133	2,197
EBITDA			914	736	347	265	151	197

<sup>&</sup>lt;sup>1</sup> Financial highlights of additional holdings can be found in the body of the following annual report.

<sup>&</sup>lt;sup>2</sup> Based on the consolidated financial statements, translated using the average NIS/USD exchange rate for the respective year;

Total assets translated using the exchange rate on the 31 December, 2007 or 31 December, 2006 for each respective year.

3 2006 results are pro-forma and exclude the results of Ashdod Refineries sold at the end of the third quarter 2006.



Growth-enhancing investments of over \$6 billion initiated in 2007 by Israel Corp. and its portfolio companies'

# 2007 KEY HIGHLIGHTS

#### **INVESTMENT**

\$706 MILLION ACQUISITION
OF CONTROLLING STAKE IN OIL
REFINERIES LTD. FROM STATE OF
ISRAEL; CONTROL PERMIT GRANTED
IN JUNE 2007

\$543 MILLION PURCHASE OF INKIA ENERGY, LATIN AMERICAN POWER COMPANY WITH OPERATIONS IN SIX COUNTRIES, FROM GLOBELEQ

\$225 MILLION INVESTMENT AND \$180 MILLION GUARANTEES IN A JOINT VENTURE WITH CHERY AUTOMOBILE CO. OF CHINA; THE JV RECEIVED FORMAL APPROVAL BY THE CHINESE GOVERNMENT IN DEC. 2007

\$100 MILLION LEAD INVESTMENT IN PROJECT BETTER PLACE, TO CREATE WORLD'S FIRST ELECTRIC RECHARGE GRID OPERATOR FOR ELECTRIC CARS

#### **PORTFOLIO EXPANSION**

ICL ACQUIRES SUPRESTA HOLDINGS, A MANUFACTURER OF FLAME RETARDANTS, FOR \$352 MILLION, TURNING ICL INDUSTRIAL PRODUCTS SEGMENT INTO A BILLION-DOLLAR-REVENUE SEGMENT OF ICL

OIL REFINERIES LAUNCHES \$1.1 BILLION FIVE-YEAR STRATEGIC PLAN TO UPGRADE OPERATIONS AND EXPAND

ZIM COMPLETES THE ACQUISITION OF 13 NEW VESSELS (AND LEASE OF 9 MORE), INCLUDING NINE 12,600 TEU MEGA CONTAINER SHIPS, BRINGING NEW INVESTMENT INITIATIVES TO OVER \$3 BILLION DURING 2006 AND 2007

INKIA ENERGY ANNOUNCES \$90
MILLION INVESTMENT IN A 192 MW
GAS TURBINE TO BE COMMERCIALLY
OPERATIVE IN 2010

#### **FINANCING**

NIS 2.1 BILLION PLACEMENT OF DEBENTURES BY ISRAEL CORP., RATED AA/STABLE BY MA'ALOT, A STANDARD & POOR'S SUBSIDIARY

\$1.4 BILLION IN CREDIT FACILITIES FOR ZIM'S SHIP ACQUISITIONS PROVIDED BY TWO CONSORTIUMS OF LEADING INTERNATIONAL BANKS

\$725 MILLION FIVE-YEAR CREDIT FACILITY FOR ICL ARRANGED WITH 17 INTERNATIONAL BANKS AND FINANCIAL INSTITUTIONS

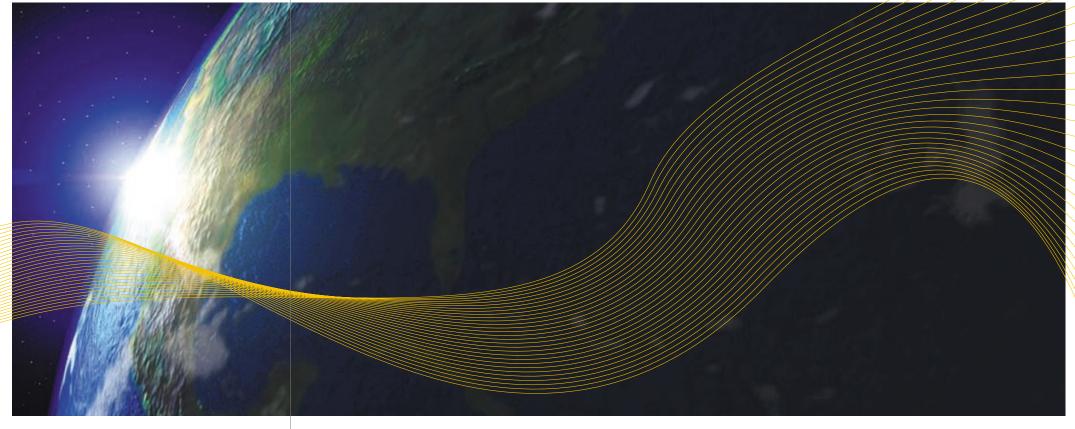
NIS 1.8 BILLION PLACEMENT OF DEBENTURES BY ORL RATED AA/ STABLE BY MA'ALOT

#### **IC MANAGEMENT**

NIR GILAD, FORMER DEPUTY
CEO STRATEGY AND BUSINESS
DEVELOPMENT OF ISRAEL CORP,
APPOINTED CEO, REPLACING YOSSI
ROSEN. MR. GILAD FORMERLY SERVED
AS ACCOUNTANT GENERAL OF THE
STATE OF ISRAEL, DEPUTY CEO OF
MIGDAL INSURANCE HOLDINGS,
AND CHAIRMAN OF MIGDAL CAPITAL
MARKETS. MR. ROSEN APPOINTED
ACTIVE CHAIRMAN OF OIL REFINERIES
LTD. FOLLOWING ACQUISITION OF
CONTROL BY ISRAEL CORP., AND
REMAINS A BOARD MEMBER OF ICL

ALLON RAVEH, FORMER CFO OF BINO HOLDINGS AND VP BUSINESS DEVELOPMENT OF PAZ OIL COMPANY, JOINS ISRAEL CORP'S MANAGEMENT TEAM AS VP BUSINESS DEVELOPMENT AND STRATEGY

# LETTER TO SHAREHOLDERS





Mr. Idan Ofer Chairman of the Board



Mr. Nir Gilad President & CEO

## TO OUR SHAREHOLDERS,

2007 was a year of progress and expansion for Israel Corp. Our primary goal is the creation of shareholder value, and our new investments this year were made with that aim firmly in mind. Furthermore, during 2007, we recognized the importance of our long-term groupwide strategy that balances economic value with an underlying responsibility to continue supplying major global basic materials in an environmentally and socially responsible manner.

Our proactive approach and core strengths – the experience and vision of our shareholders and management team, the global presence of our portfolio companies, our responsible approach towards preserving the environment, as well as our financial strength – have positioned us uniquely to pursue and capitalize on new and exciting global opportunities.

Our vision and investment approach are driven by our understanding of major global trends, two of which are:

## A GLOBAL SHIFT TOWARDS EMERGING MARKETS

where domestic demand is gradually replacing export-led growth. In 2007, emerging countries made the strongest contribution to the world's growth, led by China, which grew at about 11% and alone contributed nearly 27% of the world's total growth. In 2007, China's output reached more than half of that of the U.S., with demand led by its domestic market, a fact which points to the rising consumer power of China's middle class. This, in turn, is fueling a dramatic rise in demand for basic resources, like fertilizers, energy and water, as well as consumer products and services.

#### A QUEST FOR ALTERNATIVE, ENVIRONMENTALLY-FRIENDLY SOLUTIONS

The rising global demand for basic products and goods is constraining resources. A global quest for alternative solutions has begun. With an increasing awareness that environmental responsibility is critical for the survival of our planet, companies and individuals alike are seeking alternative solutions for basic needs like energy, food, and transportation. Regulators throughout the world are becoming increasingly active in this process, penalizing polluters and

providing incentives for environmentally-responsible solutions. This is reflected in the fact that, more than \$117 billion of investments in clean energy projects were made globally in 2007, a 40% increase compared with 2006, and that carbon funds, which barely existed as recently as five years ago, now total more than \$12 billion.

We view these trends as causing a significant disruption to a variety of traditional industry sectors and impacting all facets of the global business environment. In parallel, they are giving rise to business opportunities with high potential value which Israel Corp. is acting to capitalize on, through its global network, foresight, resources and experience.

Our track record proves that we have been successful in taking leading positions in companies and ventures with hidden potential, and then, working together with management, capturing the opportunities, defining a long-term growth strategy and supporting ongoing execution. Over the years, we have guided each of our holdings, granting them the tools and vision to grow and expand globally, enhance profitability and increase shareholder value. We believe

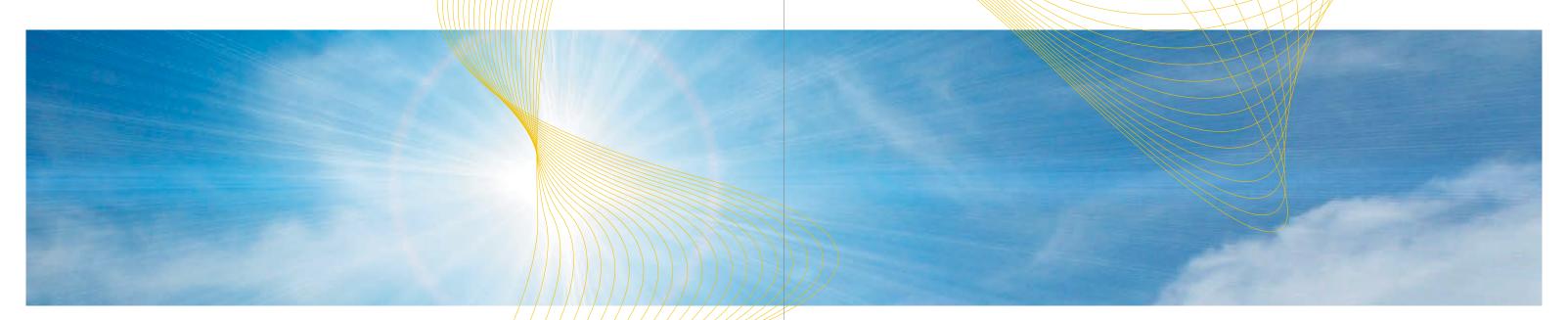
that, with our capabilities and experience, we are well positioned to continue expanding our investment horizons in 2008 and beyond.

#### **HIGHLIGHTS OF 2007**

2007 was an active year during which we continued to implement our long-term value-creation strategy based on organic growth as well as acquisitions. Some of the main events of the year include:

### FERTILIZERS & SPECIALTY CHEMICALS ICL (52.3%)

In 2007, ICL delivered another recordbreaking year, as it took advantage of the exceptional fundamentals of global fertilizer markets and increased its revenues by 24.2% to \$4.1 billion, and its profits by 43.2% to \$536 million. To continue building its Industrial Products and Performance Products segments, ICL carried out several strategic acquisitions during the year, led by its \$352 million acquisition of Supresta, a move which transforms ICL into a leading global player in the flame retardant industry. To drive its future growth, ICL continues to seek out ways to leverage its strong resources and capabilities throughout the world.



#### **ENERGY**

#### **OIL REFINERIES (ORL) (45.1%)**

During 2007, we took part in the privatization of Israel's largest oil refinery and petrochemical complex, with our total investment to date amounting to \$706 million. Under a new board chaired by Mr. Yossi Rosen, Israel Corp's former CEO and ICL's former chairman, ORL's management has adopted a five-year, \$1.1 billion strategic and reorganizational plan designed to increase its product range, realize synergies between its refining and petrochemical operations, upgrade the refinery in terms of complexity as well as environmental standards, and expand its international operations.

#### **INKIA ENERGY (100%)**

In June 2007, we acquired the Latin American portfolio of Globeleq, including power plants in Peru, Bolivia, El Salvador, Jamaica, the Dominican Republic and Panama for \$543 million. The gross generation capacity of these plants is over 2200 MW (net capacity of 826 MW) 40% of which is derived from clean hydro technology. We plan to become a significant player in the region's attractive and fast-growing power generation sector.

#### **IC GREEN ENERGY (100%)**

Our new alternative energy venture arm continued to examine and develop a variety of opportunities in the emerging solar power and biofuels sectors, and invested in companies developing technologies for the production of biofuel from biomass and solar thermo technology.

#### **SHIPPING**

# ZIM INTEGRATED SHIPPING SERVICES (98.3%) During 2007, container shipping freight

rates were under pressure due to higher

growth in supply (capacity deployed) compared to demand (global trade) resulting primarily from the slowdown of US consumer demand. Nonetheless, in accordance with our long-term bullish view on this sector, we made significant progress during the year in line with our \$3 billion strategic plan to transform ZIM into one of the world's top ten integrated container shipping companies. We continued to upgrade and expand our fleet, acquiring thirteen new vessels (leasing nine more), including nine 12,600 TEU mega container ships. We launched a variety of new lines serving Asia, Northern Europe, the Black Sea, Brazil and Jamaica. We also expanded our overland transportation and distribution capabilities, participating in a \$2 billion joint venture with the Chinese railway company to create 18 inland distribution train and ship terminals in China, and acquiring 20% of the Antwerp Gateway Terminal in Belgium. We also began to work on a new global IT network to improve our efficiency and strengthen our customer service.

#### TRANSPORTATION

#### CHERY QUANTUM AUTO CO. (45.0%)

During 2007, we committed to invest \$225 million and provide additional \$180 million in guarantees, for a 45% stake in a \$900 million joint venture with Chery Automobile, China's largest independent automobile maker. The joint venture, which is expected to start selling cars within two years, will design, manufacture and market Westernstandard vehicles under a differentiated premium brand name. Its sales will be targeted both to the Chinese domestic market, the world's fastest growing vehicle market, and international markets.

#### **PROJECT BETTER PLACE (33.3%)**

In October 2007 we became the lead investor in Project Better Place, the world's first Electric Recharge Grid Operator. Better Place's complete infrastructure framework integrates existing technologies such as batteries, charge spots and renewable electricity generation, to create a zero emission transportation system based on the use of electric cars. We are very excited about this promising new venture which proposes a real alternative solution for the traditional oil-reliant private transportation sector.

#### **OTHER SIGNIFICANT HOLDINGS**

#### **TOWER SEMICONDUCTOR (33.1%)**

Tower maintained its positive momentum in 2007, achieving improvements across all financial metrics. Revenues reached approximately \$230 million, enabling the company to complete the year with an annual run-rate of a quarter of a billion dollars, and EBITDA amounted to \$49 million, compared to \$43 million in 2006.

#### **ENVIRONMENT**

We seek to balance our pursuit of shareholder value with our unwavering responsibility to the environment. Our investments in companies like Project Better Place and IC Green Energy were made with the clear goal of accelerating the traction of alternative, environmentally-friendly energy and transportation solutions. In parallel, we continue to promote environmental responsibility in the ongoing operations of our portfolio companies, as demonstrated by ICL and ORL, both of which continuously invest resources to upgrade their products and facilities and to meet the highest environmental standards.

# GIVING BACK TO THE COMMUNITY

Israel Corp. has always been committed to give back to the community, making strong, continual investments in social initiatives. As an example, the "Afternoon Clubs," our flagship program for children at risk, expanded to over forty locations in 2007. We encourage our employees to personally participate in community activities like this one and support the ones who do so. In addition, we continue to make financial contributions to social service organizations ranging from battered women's shelters to programs for autistic, mentally and physically challenged children. Internationally, our

portfolio companies participate in a wide range of community initiatives on the local and national level, contributing to schools, cancer rehabilitation facilities, civil aid foundations, local sports organizations and more.

#### **MANAGEMENT**

2007 was a period of transition for our management team. After a stellar decade of service, Mr. Yossi Rosen stepped down as our CEO in June. Mr. Rosen was appointed as an active Chairman of Oil Refineries Ltd., and continues to serve as a member of the Board of Directors of ICL. This is another example of our operating approach, according to which we shift seasoned managers across group companies to leverage their experience and management skills. We would like to take this opportunity to thank Mr. Rosen for his many years of leadership, hard work and dedication to our entire group.

Nir Gilad, former Deputy CEO Strategy and Business Development of Israel Corp., was appointed CEO. Mr. Gilad formerly served as Accountant General of the State of Israel, Deputy CEO of Migdal Insurance Holdings, and Chairman of Migdal Capital Markets. In addition, Allon Raveh, former CFO of Bino Holdings and VP Business Development of Paz Oil Company, joined Israel Corp.'s management team as VP Business Development and Strategy.

#### **LOOKING FORWARD**

As we move into 2008, we feel well-positioned and optimistic as we continue to build and develop our portfolio. Despite the challenging macro environment in 2008 to date, we expect to see good results from our new investments as well as our core holdings, creating additional value for our investors. As we move forward, we will be guided by our commitment to the environment and to the community, along with our responsibility to supply basic materials and products necessary on a global basis for everyday life.

We thank you for your continuing support and pledge to work with dedication to achieve our full potential in the years ahead.

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Idan Ofer
Chairman of the Board

Nir Gilad

President & CEO



# MEETING GROWING DEMAND FOR FERTILIZERS & SPECIALTY CHEMICALS



"ICL's position as one of the world's leading producers of fertilizers enabled it to take full advantage of increased global demand and sharply higher prices for fertilizers in 2007 and achieve record results."

#### ICL (52.3%)

Our expansion strategies for ICL have transformed it into a global fertilizers and specialty chemicals company with three billion-dollar segments, ICL Fertilizers, ICL Industrial Products and ICL Performance Products, each with worldwide manufacturing, logistical, marketing and customer support operations. With strength from raw materials through value-added downstream products, ICL benefits from direct access to some of the world's lowest-cost and most concentrated sources of minerals. In 2007, ICL delivered another recordbreaking year, with revenues of \$4.1 billion compared to \$3.3 billion in 2006, EBITDA of \$914 million compared to \$736 million in 2006, net income of \$536 million compared to \$374 million in 2006. ICL's operating margin was one of the highest in its peer group.

#### **INDUSTRY TRENDS**

Throughout 2007, strong global trends increased demand for many of ICL's products:



Continued Rising Demand for Potash and Phosphate Fertilizers: the rapid development of emerging economies is increasing demand for high-quality food while simultaneously reducing the amount of land available for agriculture. Growing demand for biofuels has compounded the situation by competing for fertilizer-intensive crops, straining world supplies. As a result, fertilizer prices rose significantly. For example, average market FOB prices for potash, one of the main fertilizers produced by ICL, rose from \$180 a ton in the last

quarter of 2006 to \$270 a ton at the end of 2007, and to beyond \$450 a ton as of the end of February 2008. As the world's 7th largest producer of potash and a major supplier of phosphate rock, ICL Fertilizers took advantage of stockpiled inventory to increase these markets conditions and its 2007 revenues to \$2.15 billion from \$1.45 billion in 2006.

#### **Growth of Middle Class in Emerging**

Economies: the rise of GDP in high-population regions like China, India and Latin America represents a vast expansion of the purchasing power of billions of consumers. As a result, demand is rising for a broad range of industrial products, consumer goods and food processing ingredients. With thousands of downstream specialty chemicals products used in the food and beverage, water treatment, hygiene and cleaning, metal treatment and consumer electronics markets, ICL will benefit in the future from the expansion of consumer demand.

#### Increased Deployment of Water Treatment and Desalination

**Technologies:** constraints on world water supplies, together with increased awareness of water quality, are driving demand for water treatment and advanced desalination technologies. ICL is a leading provider of advanced water treatment solutions through its 50%-owned subsidiary, IDE Technologies, a pioneering desalination leader.

#### **Stronger Fire Safety Regulations:**

stronger fire safety regulations
throughout the developed world are
increasing demand for the full range of
flame retardants. With strength in both
bromine-based and phosphorus-based
flame retardants, ICL is one of the world's
leading flame retardant providers and
well-positioned for future growth.

#### **2007 EVENTS**

**Acquisition of Supresta:** in August 2007, ICL Industrial Products acquired Supresta, the world's largest producer of phosphorus-based flame retardants

for \$352 million, transforming ICL-IP into a billion-dollar revenue segment with leadership in the bromine and organophosphorus flame retardant industry.

#### **Strengthened Competitive Position in**

Key Markets: ICL Performance Products, a specialty phosphates powerhouse, continued to strengthen its operational capabilities and competitive positioning by acquiring Fire-Trol and Biogema, both leading producers of wildfire safety products, and the water treatment business unit of Germany-based Henkel Group, further extending ICL-PP's marketing reach and applications know-

**US Headquarters:** during 2007, ICL established US headquarters in St. Louis for its Performance Products segment to strengthen its marketing and customer support capabilities in North and South America and to serve as a base for its expanded flame retardants business.

#### **OIL REFINERIES LTD.** (45.1%)

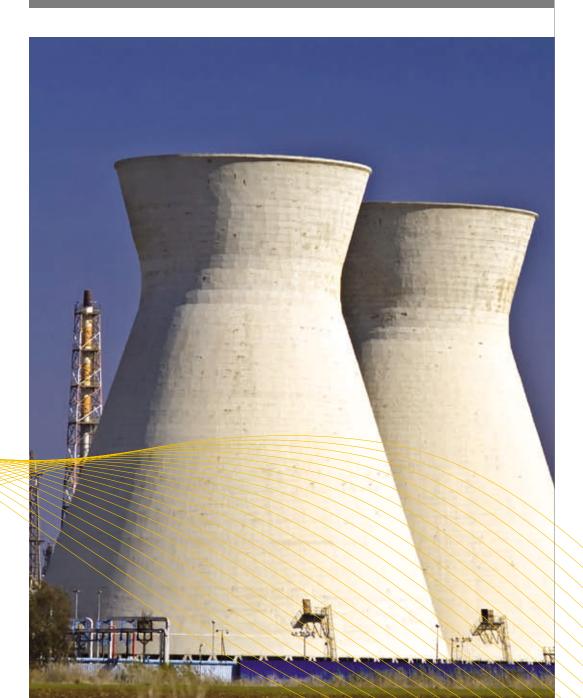
During 2007, we acquired controlling interest in Haifa-based Oil Refineries Ltd. (ORL), Israel's largest oil refinery and petrochemical producer, for \$706 million.

Established in 1938 and privatized in 2007, ORL, with a refining capacity of 180,000 barrels per day, is one of the Eastern Mediterranean's largest and most complex oil refineries. It is producing Euro-IV compliant products and is also fully capable of meeting the stringent Euro-V standard. ORL benefits from close proximity to access points for Russian and Caspian crudes, a large domestic market, and attractive, accessible export markets including Turkey, Cyprus and Greece. It is the dominant player in the Israeli market with twice the capacity of its single domestic competitor.

ORL's refinery is integrated with the operations of 50%-owned Carmel Olefins Ltd. which produces polyethylene and polypropylene polymers for Israel's highly developed plastics industry. It is also integrated with Gadiv Petrochemical Industries Ltd., a whollyowned subsidiary, which produces aromatics used in chemical and plastics applications by manufacturers throughout the Mediterranean Basin and Europe.

In 2007, ORL's consolidated revenues reached NIS 21.3 billion (approximately \$5.2 billion). EBITDA for the year of NIS 1.4 billion (approximately \$347 million) and net income of NIS 693 million (approximately \$169 million) were up 21% and 29%, respectively, over 2006 proforma results, which exclude the results of subsequently-sold Oil Refinery Ashdod.

# BUILDING A GLOBAL ENERGY **PORTFOLIO**



#### **INDUSTRY TRENDS:**

During 2007, demand for crude oil and refined products continued to grow, driven mainly by emerging markets such as China and India. In light of this increased demand as well as supply disruptions due to political uncertainties in oilexporting countries, oil prices peaked in 2007. Refining margins were volatile, ranging between \$/bbl 5.7 to \$/bbl 10, on a quarterly basis. The average refining margin for 2007 was \$/bbl 8.3, compared with an average margin of \$/ bbl 7.1 in 2006. ORL consistently tracks market trends and takes a proactive approach, to the extent possible, to offset adverse market conditions, including increasing its position in certain markets and altering its product mix. These actions resulted in refining margins that were consistently higher than the regional benchmark throughout the year.

#### **2007 EVENTS**

Reorganization Plan: to optimize ORL's operations and position the company for global expansion, ORL implemented a reorganization plan calling for far-reaching structural and organizational changes. The most significant changes included restructuring ORL's business into three divisions: Refining, Petrochemicals and Trade. We also built out ORL's corporate management team, adding a Business and Strategic Development group with the mandate of identifying global opportunities and markets.

Strategic Investment Plan: after Israel Corp. gained the control permit for ORL from the state of Israel, in June 2007 we unveiled a \$1.1 billion strategic investment plan aimed at improving efficiency and addressing new regional and global opportunities. The plan

includes an investment of \$600 million in two hydrocrackers that will upgrade ORL's refining capabilities, expand its range of value-added products and as a result generate higher refining margins for ORL. \$270 million has been budgeted for environmental and safety projects.

**Business Development:** in line with our goal to extend ORL's operations in the international markets, during 2007 ORL's polymers subsidiary agreed to acquire 49% of Domo Polypropylene BV, a Netherlands-based polypropylene producer.

#### **INKIA ENERGY (100%)**

During 2007 we acquired a portfolio of power generation assets in Latin America, through a wholly owned subsidiary, Inkia Energy ("Inkia"), for \$543 million. Inkia's power plants are located in Peru, Bolivia, El Salvador, the Dominican Republic, Panama and Jamaica with various technologies and a total generating capacity of 2,200 MW (net capacity of 826MW). 40% of the electricity produced is generated by hydro-electric plants.

Demand for power in the Latin American markets where Inkia's assets are located has consistently grown at an average rate of 5%-6% per annum over the past several years, making it one of the fastest growing power markets in the world.

This multi-country, varied technology platform gives us a unique opportunity for expansion throughout Latin America. By leveraging our operational and financial experience, we plan to expand Inkia's operations and improve the performance of its existing assets. Inkia generated \$105 million in revenues, proportional EBITDA (including a share in the EBITDA of an affiliated company) of \$31 million and net profit of \$4 million in the second half of 2007 (since its acquisition).

Following our acquisition, we established Inkia as an independent company, relocated its headquarters from Houston, Texas, to Lima, Peru, and appointed a new, dynamic management team with extensive international and local experience in the power industry.

We are currently in the process of developing a new investment and growth plan, aimed at increasing Inkia's capacity and utilization, and driving higher returns. Plans include building environmentally friendly power plants and leveraging Inkia's substantial experience in various technologies, particularly hydropower. As a first step, Inkia has started constructing a 192MW gas turbine in Peru to be operational by 2009. It is also considering adding a similar turbine by 2010, which together will increase Inkia's net capacity by approximately 50%.

#### **IC GREEN ENERGY** (100%)

IC Green Energy Ltd. (ICG), our alternative energy venture arm, is actively searching for high-growth renewable energy opportunities primarily in the solar power and biofuels sectors.

In 2007 the company's management team continued to examine and develop various opportunities for establishing operations in these fields, and invested in several companies developing new technologies for producing biofuel from biomass and solar thermo technology.

"During 2007 we made significant new investments in oil refining, power, and renewable technologies, expanding our investments in the energy sector, and making progress in our strategy to create a global energy portfolio"



# ZIM INTEGRATED SHIPPING SERVICES (98.3%)

ZIM is the world's 14th largest container shipping company, operating 110 vessels of which 108 are container vessels with a total carrying capacity of more than 278,000 TEUs. ZIM carries cargo via 65 services to ports of call throughout the world and offers comprehensive "end-to-end" shipping services, including overland transport, distribution and storage, and operates an extensive global logistics network. ZIM's presence is particularly strong on routes between the Far East, the Caribbean and the Mediterranean

ZIM recorded revenues of \$3.8 billion in 2007, compared with \$3.1 billion in 2006, EBITDA of \$151 million compared with \$197 million in 2006, and net income of \$28.2 million compared with \$80.4 million in 2006.

#### **INDUSTRY TRENDS**

During 2007 container shipping freight rates were under pressure due to higher growth in supply (capacity deployed) compared to demand (global trade). In addition, general increases in operational costs, particularly fuel prices, were only partially offset by increased freight rates. This trend was particularly noticeable for Trans-Pacific and Trans-Atlantic trade routes. However, container shippers benefited from a substantial increase in freight rates on Asia-Europe trade routes. As a result, shippers have re-allocated a portion of their capacity from Trans-Pacific routes to Asia-Europe routes.

#### **2007 EVENTS**

During 2007, we made significant progress in line with an aggressive 5-year, \$3 billion strategic plan designed to double ZIM's capacity, increase the optimization and utilization of our assets and enhance our global door-to-door services. Our goal is to transform ZIM into one of the world's top ten integrated container shipping companies.

**Expansion of our Fleet:** We continued to upgrade and diversify our fleet of container ships with the goal of reaching a capacity of 517,000 TEUs by 2012. During the year, we purchased 13 ships (and leased 9 more) including nine 12,600-TEU mega container ships for delivery in 2012. Our total orderbook currently includes 22 ships ranging between 2,450-12,600 TEUs to be delivered in 2008 -2012. In addition we also purchased 9 other vessels, which were later sold and leased

**Expansion of our Global Network:** During the year, we continued with significant investments to expand our overland transport, distribution and storage capabilities:

back to the company.

 Participated in a \$2 billion joint venture with the Chinese railway company to invest in 18 inland distribution terminals in China;

- Acquired 20% of the Antwerp Gateway Terminal;
- Established an agency in Vietnam to provide additional shipping and logistic services for Southeast Asia

#### **Expansion of our Shipping Services:**

During 2007, we launched a variety of new lines serving Asia, Northern Europe, the Black Sea and Jamaica.

IT Development: During the year, we began working on our comprehensive new web-based managerial information system, providing accurate, up-to-theminute information to our agents and customers in more than 70 countries and 120 locations worldwide. This sophisticated global IT network will also strengthen our customer service by providing shipment planning and tracking using web-based tools.

CHARTING A POLE POSITION ININTEGRATED SHIPPING SERVICES



# BOLD INITIATIVES IN TRANSPORTATION

During 2007 we made two major investments in the transportation sector:

#### CHERY QUANTUM AUTO CO. (45.0%)

During 2007, we secured a 45% stake in Chery Quantum, a joint venture between Israel Corp. and Chery
Automobile, China's largest independent car manufacturer and fourth largest automaker. Founded in 1997, Chery currently manufactures 10 series of vehicles and has a production capacity of 650,000 automobiles per year. Chery sold almost 400,000 compacts, sedans and sport utility vehicles in 2007, with 25% of its sales exported to emerging markets such as Russia, the Middle East and Latin America.

China is the world's fastest growing automobile market, where sales volumes are growing by over 20% per year. In 2007, car sales in the domestic Chinese market amounted to almost nine million cars, over six million of which were private cars.

Our joint venture with Chery will develop the next generation of vehicles for China's domestic market as well as for export. These will be high-quality, Western-standard vehicles that combine Chery's manufacturing capabilities with Western design, engineering and safety standards. The new cars will be manufactured in a new production facility located in Wuhu, Anhui province, and will be sold under a well-differentiated brand. Since receiving approval from the Chinese government in December 2007, Israel Corp. and Chery have begun to establish the new company and mandated its independent management team to begin sourcing premier engineers and a workforce to initiate the design process.

The total capital commitment of the parties to the joint venture is around \$900 million, of which we have committed \$225 million and an additional \$180 million in guarantees.

# PROJECT BETTER PLACE (33.3%)

In October 2007 we became the lead investor in Project Better Place, the world's first Electric Recharge Grid Operator, joining an investor group that includes banking giant Morgan Stanley, venture capital fund Vantage Point, and other investors. Better Place's framework integrates existing technologies such as batteries, charge spots and renewable electricity generation to move countries and regions away from the use of fossil fuels for cars towards a zero emission transportation system based on the use of electric cars. In essence, Better Place's business model is similar to that of a mobile phone operator's, including construction and operation of infrastructure, selling of consumer driving miles and partnering with the manufacturers of devices (in this case, electric cars) to provide a complete personal transportation solution.

Better Place's vision includes the development of a complete infrastructure framework, including hardware, software and installation mechanism, to be deployed in multiple countries around the world. Its electric recharge grid will include massive numbers of electric sockets ("charge spots") located in parking lots at work, home and urban centers. The spots will be used to charge the batteries of electric cars where they are parked. To support long distance travel, battery swapping locations ("swap stations") will be placed in convenient locations across the country, similar to today's filling stations. Better Place will collaborate closely with car and battery manufacturers to encourage standardization so that a large number of car models will fit its Electric Recharge Grid.

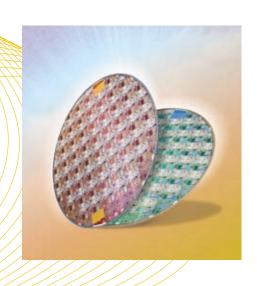
Better Place's business model is meant to allow consumers to enjoy faster, more convenient cars, at lower purchase and maintenance costs. It represents one of the world's only large-scale solutions to massively reduce dependency on fossil fuels. Its implementation could lead to a reduction of up to 20% of the world's CO2 emissions, and thereby slow down climate change more effectively than any other environmental enterprise on the planet.

In January 2008, the State of Israel declared its desire to significantly reduce the use of gasoline for vehicle transportation by establishing a policy to provide clean transportation tax incentives. At the same time, carmaker Renault-Nissan signed a Memorandum of Understanding with Better Place to mass-produce cars and batteries that complement the Better Place framework. On its part, Better Place agreed to construct an electric recharge grid across Israel. The concept will be tested in 2008, with ramp-up activities scheduled to be rolled out through 2011. Better Place is currently exploring similar initiatives in various other countries.

"Our investments in the transportation sector are aimed at capturing two exciting opportunities this sector offers: (1) surging demand in the emerging world – particularly China – for higher quality vehicles; and (2) the economic viability and demand for electric vehicles in light of rising oil prices, declining battery prices and the urgent global need to reduce CO2 emissions and oil dependency."



## OTHER SIGNIFICANT HOLDINGS



# TOWER SEMICONDUCTORS (33.1%)

Tower Semiconductor Ltd., an independent specialty foundry manufacturing integrated circuits, maintained its positive momentum in 2007 achieving improvements across all financial metrics. Revenues reached approximately \$230 million up 23% from the previous year, with EBITDA of \$49 million and positive cash flow from operations. During 2007, the company completed a 50% expansion of its FAB 2 capacity to reach over 24,000 wafersper-month. Driving Tower's financial and operational improvements were its specialty strategy, diversified products and technologies, responsiveness to customer needs and market changes, as well as strong product development and a \$120 million fundraising.

Tower, established in 1993, delivers customized solutions in a variety of advanced CMOS technologies. The company manufactures integrated circuits (ICs) with geometries from 1.0- to 0.13-micron as well as complementary technical services and design support. In addition to digital CMOS process technologies. Tower provides specialized technologies including CMOS image sensors, power management and automotive devices, mixed signal and RF-CMOS technologies. The company operates two world-class manufacturing facilities with standard and specialized process technologies.

# A CONTINUING INVESTMENT IN COMMUNITY

Israel Corp. has always viewed its performance and profitability as an opportunity to give back to the community. However, we believe that communal responsibility entails personal involvement as well as financial assistance. As a result, we have appointed senior executives from our management and our portfolio companies to coordinate communal projects.

We are particularly sensitive to the needs of disadvantaged populations, such as youth at risk, battered women and teenage girls, the physically and mentally challenged and the elderly. We support dozens of associations and frameworks that assist the disadvantaged through funding and volunteerism.

Internationally, our portfolio companies participate in a wide range of community initiatives on the local and national level, contributing to schools, cancer rehabilitation facilities, civil aid foundations, local sports organizations and more.

We also allocate significant financial and human resources to healthcare, scientific, cultural and art institutions, special education schools and various educational activities. In 2007, IC contributed NIS 14 million to these causes.

Three especially noteworthy programs that we supported in 2007 include:



## PHARMACEUTICALS FUND FOR HEALTHCARE IN ISRAEL

provides needy individuals with expensive, critical medications that are not provided by Israel's health funds. Since its inception in 2005, the Fund has provided medications valued at over NIS 35 million. IC's partners in this project include ICL, ZIM and Mr. Sammy Ofer.

#### **AFTERNOON CLUBS**

our flagship program for children at risk. Launched in 2001, by the end of 2007 nearly 60 clubs were in operation throughout Israel, making a clear difference to many of Israel's disadvantaged neighborhoods. The clubs have also touched the lives of the many IC-Group managers and employees who generously dedicate their time.

#### ALUT

Israel's Association for Autistic
Children, whose mission is the wellbeing and rehabilitation of children
with autism in Israel. Throughout the
years we have supported ALUT in its
revolutionary treatment of autistic
toddlers and children in Israel. We have
been privileged to partner with ALUT by
establishing a special treatment and
education center in Jerusalem offering
integrated and individualized educational
programs and the establishment of a
village for autistic children in Beer Sheva.

# **RAISING ENVIRONMENTAL** RESPONSIBILITY TO A NEW STANDARD

Protecting the environment is a core fundamental of our operations. It affects how we operate our businesses and, increasingly, our investment philosophy.

As a major provider of basic resources we believe we have a special responsibility to protect the environment. As a result, we promote a group-wide organizational culture that values environmental and encourages awareness, products and processes.

#### **OUR INDUSTRY-LEADING EFFORTS INCLUDE:**

- Initiating enforcement programs to verify compliance with the strictest environmental regulations through all group companies;
- Investing in processes for saving energy and natural resources;
- Reducing greenhouse gas emissions through transition to clean fuels;

- Implementing Responsible Care programs with the goal of reducing the environmental impact of products throughout their lifecycle; and
- Increasing environmental transparency by appointing top-level management to manage and oversee environmental activities.

#### IN 2007. WE SIGNIFICANTLY EXPANDED OUR ENVIRONMENTAL FOCUS IN OUR **EXISTING PORTFOLIO:**

- ICL invested \$65 million in environmental initiatives across its three operating segments;
- Oil Refineries announced a \$270 million investment over the next five years to ensure compliance with the most stringent environmental and safety standards, and minimize its environmental impact;
- ICL and ORL spent millions of dollars in converting to natural gas, thereby significantly reducing carbon emissions and improving operating efficiencies; and

- ZIM devoted considerable resources adhering to marine environment protection procedures.
- ICL's subsidiary, IDE, a 40-year desalination pioneer, expanded its activities, providing alternative solutions to the world's clean water
- In addition, environmentally-friendly initiatives comprise a significant portion of our new investments, including Project Better Place, IC Green Energy, and Inkia, our Latin American power company, which generates 40% of its electricity from hydro-electric plants and has significant expertise in this field. This aspect continues to be key issue in our investment strategy.



# CORPORATE DIRECTORY

#### **EXTERNAL AUDITORS**

KPMG Somekn Chaikin 17 Ha'arbaa St., Tel Aviv 61006, Israel

#### TRADING INFORMATION

Israel Corp.'s shares are traded on the Tel Aviv Stock Exchange under the ticker symbol 'ILCO'.

#### INFORMATION REQUESTS

Please send information requests to:
Allon Raveh

VP Business Development & Strategy Millennium Tower, 23 Aranha St., P.O.B. 20456, Tel-Aviv 61204, Israel E-mail: /allonr@israelcorp.com Tel. +972;3-6844531

Fax +972-3-6844531

#### **BOARD OF DIRECTORS**

Idan Ofer, Chairman of the Board
Ehud (Udi) Angel, Director
Amnon Lion, Director
Moshe Vidman, Director
Irit Izakson, Director
Zvi Itskovitch, Director
Avi Levy, Director
Yair Saroussi, Director
Yaacov Amidror, Director
Prof. Gideon Langholtz, Director

#### **EXECUTIVE OFFICERS**

Nir Gilad, President & Chief Executive Officer

Avisar Paz, Chief Financial Officer

Allon Raveh, VP Business Development & Strategy

Adv. Noga Yatziv, Company Secretary and Assistant to the CEO

#### **GROUP MANAGEMENT**

Nir Gilad, Chairman of the Board, Israel Chemicals Ltd.

**Akiva Mozes,** President & Chief Executive Officer, Israel Chemicals Ltd.

**Idan Ofer,** Chairman of the Board, Zim Integrated Shipping Services Ltd.

**Doron Goder,** President & Chief Executive Officer, Zim Integrated Shipping Services Ltd.

Yossi Rosen, Chairman of the Board, Oil Refineries Ltd.

Yashar Ben-Mordechai, Chief Executive Officer, Oil Refineries Ltd.

Javier Garcia Burgos, Chief Executive Officer, Inkia Energy Ltd.

Dov Moran, Chairman of the Board, Tower Semiconductor Ltd.

**Russell Ellwanger,** Chief Executive Officer, Tower Semiconductor Ltd.

Nir Gilad, Chairman of the Board, IC Green Energy Ltd.

**Yom-Tov Samia,** President & Chief Executive Officer, IC Green Energy Ltd.

This annual report (the "Begon") has been prepared solely to provide an introduction to the business of Israel Corporation Ltd. (the "Company") and is not intended to form the basis of any investment decision with respect to the Company's securities. This Report does not constitute a prospectus or listing particulars relating to the Company, nor does it constitute or form part of any offer or invitation to purchase, sell or subscribe for, or any solicitation of any such offer to purchase, sell or subscribe for, any sequence of any solicitation of any such offer to purchase, sell or subscribe for, any solicitation of any such offer to purchase, sell or subscribe for, any solicitation of any such offer to purchase, sell or subscribe for, or any solicitation of any such offer to purchase, sell or subscribe for, or any solicitation of any such offer to purchase, sell or subscribe for, or any solicitation of any such offer to purchase, sell or subscribe for, or any solicitation of any such offer to purchase, sell or subscribe for, or any solicitation of any such offer to purchase of or subscription for any purposes whatsoever, on the information or only interpretation or varranty, express or funding the purchase of or subscription for its shares. No representation or warranty, express or implied is given by or on behalf of the Company, or any of its directors, partners, officers, employees, advisers or any other persons as to the accuracy, fairness or sufficiency of the information or opinions contained in this Report are forward-looking of subscription for its shares. No representation or varranty, express or funding for sufficiency of the information or opinions. The Company is under no obligation to update any information and subscribe of risks, uncertainties and assumptions which could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements and management Discussion and Analysis as published by the Company. These and other factors could adversely affe

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#### Israel Corp. Ltd.

Millennium Tower
23 Aranha St., P.O.Box 20456
Tel Aviv 61204, Israel
Tel (972) 3 6844500
Fax (972) 3 6844570
www.israelcorp.com