# Israel Corporation Ltd.

# Periodic Report

# As at June 30, 2011

**(UNAUDITED)**

**Israel Corporation Ltd.**
**Report of the Corporation's Board of Directors,**
**Condensed Consolidated Interim Financial Statements and**
**Condensed Interim Separate-Company Financial Statements**
**At June 30, 2011**
**Unaudited**

## Contents

# Report of the Corporation's Board of Directors

## For the Six Months Ended June 30, 2011

Israel Corporation Ltd. (hereinafter – "the Corporation") is a holding company engaged in initiation, promotion and development of businesses in and outside Israel. In order to execute its investments, including through its subsidiaries, from time to time the Corporation examines investment opportunities in companies and ventures in various activity sectors, including foreign ventures and international operations, while focusing on entities having broad-scoped activities or with the potential for reaching such dimensions, with any eye toward acquiring significant holdings therein.

The Corporation is a public company and its shares are traded on the Tel-Aviv Stock Exchange.

The Corporation is involved in management of the Group companies, particularly those companies in which it holds a significant interest.

The Corporation operates through an array of investee companies, mainly in the chemicals, shipping, energy and power station sectors, and also has additional investments, including in the areas of advanced technology, vehicles, infrastructures for electric vehicles and "clean" energy. The Corporation's headquarters provides management services, through a wholly controlled subsidiary, and is also actively involved in the strategic planning and business development of the investee companies. In addition, the Group endeavors to establish and develop additional businesses.

The Report of the Board of Directors is issued in a state of uncertainty with respect to the international markets, a concern regarding the financial stability of European countries, reduction of the credit rating of the United States by one of the rating companies and a fear of slipping into a worldwide recession. The activities of the Group companies are impacted by the global economy. The said uncertainties and fear of a worldwide recession affected the results of some of the Group companies already in the second quarter. The uncertainties and worries concerning the stability of the economies of several European countries and the United States, along with a fear of moderation of the growth rate in China, have created uncertainty and concern with respect to the results of the Group companies in the remainder of the current year.

**This Directors' Report is submitted as part of the interim financial statements for the period ended June 30, 2011, 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 2010.**

**FINANCIAL POSITION**

– The total assets, as at June 30, 2011, amounted to about $15,353 million, compared with about $12,649 million, as at June 30, 2010, and compared with about $14,022 million, as at December 31, 2010.

– The current assets net of current liabilities, as at June 30, 2011 amounted to about $2,300 million, compared with of about $1,756 million as at June 30, 2010, and compared with about $2,224 million, as at December 31, 2010.

– The balance of the non-current assets, as at June 30, 2011 amounted to about $9,665 million, compared with about $8,569 million as at June 30, 2010, and compared with about $8,995 million, as at December 31, 2010.

– The non-current liabilities, as at June 30, 2011, amounted to about $7,858 million, compared with about $6,921 million, as at June 30, 2010, and compared with about $7,384 million, as at December 31, 2010.

**FINANCIAL POSITION (Cont.)**

– The total sales for the six-month and the three-month periods ended June 30, 2011 amounted to about $5,723 million and about $3,144 million, respectively, compared with about $4,795 million and about $2,542 million, respectively, for the corresponding periods ended June 30, 2010.

– The capital attributable to the owners of the Corporation as at June 30, 2011 amounted to about $2,436 million, compared with $2,040 million as at June 30, 2010, and about $2,389 million as at December 31, 2010.

**CHANGES IN THE INVESTMENT PORTFOLIO**

**I.C. Power Ltd. (hereinafter – "I.C. Power")**

1. In period of the report, the Corporation invested about $38 million in I.C. Power by means of capital notes.

2. Regarding guarantees in respect of O.P.C. Rotem Ltd. given by the Corporation and the headquarters company – see Note 5A3 to the financial statements.

**RESULTS OF OPERATIONS**

The Corporation finished the period of the report with income allocable to the owners of the Corporation of about $50 million, compared with income of about $206 million in the corresponding period last year.

The Corporation's results include financing expenses of ZIM in respect of the debt arrangement in the amount of about $17 million as well as the negative contribution of the companies presently at the start of their activities in the amount of about $57 million. Without the impacts of the debt arrangement and the negative contribution of the companies presently at the start of their activities, the Corporation finished the period of the report with income allocable to the owners of the Corporation of about $124 million.

The companies presently at the start of their activities, Better Place Inc. and Chery Quantum Auto Limited, are companies that have not yet commenced their commercial operations.

The Corporation finished the second quarter of the period of the report with income allocable to the owners of the Corporation of about $103 million, compared with income of about $157 million in the corresponding quarter last year.

The Corporation's results in the quarter include financing income of ZIM in respect of the debt arrangement in the amount of about $53 million as well as the negative contribution of the companies presently at the start of their activities in the amount of about $18 million. Without the impacts of the debt arrangement and the negative contribution of the companies presently at the start of their activities, the Corporation finished the second quarter of the period of the report with income allocable to the owners of the Corporation of about $68 million.

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

– Israel Chemicals Ltd. (hereinafter – "ICL") finished the period of the report with income of about $706 million, compared with income of about $536 million in the corresponding period last year.

– Oil Refineries Ltd. (hereinafter – "ORL") finished the period of the report with income of about $24 million, compared with income of about $29 million in the corresponding period last year. Without the impact of application of IFRS 9 (2010), ORL finished the period of the report with income of about $1 million.

**RESULTS OF OPERATIONS (Cont.)**

- ZIM Integrated Shipping Services Ltd. (hereinafter – "ZIM") finished the period of the report, with a loss of about $179 million, compared with a loss of about $79 million in the corresponding period last year.

  ZIM's loss in the period of the report, without the impact of the debt arrangement on the results, amounted to about $167 million, compared with a loss of about $100 million in the corresponding period last year.

- I.C. Power Ltd. (hereinafter – "I.C. Power") finished the period of the report with income of about $20 million, compared with income of about $24 million in the corresponding period last year.

- Tower Semiconductor Ltd. (hereinafter – "Tower") finished the period of the report (in accordance with IFRS) with a loss of about $7 million, compared with a loss of about $44 million in the corresponding period last year.

- Better Place LLC (hereinafter – "Better Place") finished the period of the report with a loss of about $51 million, compared with a loss of about $51 million in the corresponding period last year (after offset of interest to the preferred shareholders).

- Chery Quantum Auto Limited (hereinafter – "Chery Quantum") finished the period of the report with a loss of about $82 million, compared with a loss of about $4 million in the corresponding period last year.

- The net financing expenses in the consolidated report (including financing expenses of the headquarters company) in the period of the report amount to about $252 million, compared with about $99 million in the corresponding period last year.

  The increase in the financing expenses derived mainly from an increase in revaluation to fair value of financial instruments through the statement of income, erosion of the shekel financial liabilities – mainly the debentures, the impact of exchange rate differences on the provisions in respect of employee benefits and the impact of the debt arrangement in ZIM.

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

- ICL finished the second quarter of the period of the report with income of about $426 million, compared with income of about $296 million in the corresponding quarter last year.

- ORL finished the second quarter of the period of the report with income of about $18 million, compared with income of about $32 million in the corresponding quarter last year. Without the impact of application of IFRS 9 (2010), ORL finished the second quarter of the period of the report with income of about $18 million.

- ZIM finished the second quarter of the period of the report with a loss of about $68 million, compared with income of about $3 million in the corresponding quarter last year.

  ZIM's loss in the second quarter of the period of the report, without the impact of the debt arrangement on the results, amounted to about $124 million, compared with income of about $19 million in the corresponding quarter last year.

- I.C. Power Ltd. finished the second quarter of the period of the report with income of about $8 million, compared with income of about $9 million in the corresponding quarter last year.

- Tower finished the second quarter of the period of the report (in accordance with IFRS) with income of about $3 million, compared with a loss of about $9 million in the corresponding quarter last year.

**RESULTS OF OPERATIONS (Cont.)**

– Better Place LLC (hereinafter – "Better Place") finished the second quarter of the period of the report with a loss of about $8 million, compared with a loss of about $31 million in the corresponding quarter last year (after offset of interest to the preferred shareholders).

– Chery Quantum Auto Limited finished the second quarter of the period of the report with a loss of about $32 million, compared with a loss of about $1 million in the corresponding period last year.

**As an investment company, the Corporation's financial results are affected by the results of its investee companies.**

**Presented below are details of the contribution of the principal investee companies to the Corporation's results:**

| | Six months ended June 30 | | Three months ended June 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $ Millions | | | |
| ICL | **370** | 281 | **223** | 155 |
| ORL | **–** | 11 | **7** | 12 |
| ZIM | **(178)** | (79) | **(67)** | 3 |
| I.C. Power | **22** | 24 | **11** | 9 |
| Tower | **(2)** | (16) | **1** | (3) |
| Better Place | **(16)** | (20) | **(2)** | (12) |
| Chery Quantum | **(41)** | (2) | **(16)** | (1) |

## PROJECTED CASH FLOWS

Pursuant to a publication of the Securities Authority on August 17, 2011, even though that stated in the Securities Regulations (Periodic and Immediate Reports), 1970, regarding the existence in a company of warning signs, does not exist in the Corporation, set forth below is a statement of projected cash flows for the twelve-month period ending on June 30, 2012 for the Corporation and the wholly owned and controlled Headquarters Companies.

**Set forth below are the projected cash flows[1] for the twelve-month period ending on June 30, 2012**

| | Twelve months ending June 30, 2012 |
|---|---|
| | $ millions |
| **Opening balance** | 653 |
| **Cash flows from operating activities** | |
| Interest and current expenses | (140) |
| Dividends received, net of tax | 500 |
| **Net cash flows provided by operating activities** | 360 |
| **Cash flows from investing activities** | |
| Investments in investee and other companies | (200) |
| **Net cash flows used in investing activities** | (200) |
| **Cash flows from financing activities** | |
| Receipt of long-term loans | 200 |
| Repayment of long-term loans and debentures | (627) |
| **Net cash flows used in financing activities** | (427) |
| **Decrease in cash and cash equivalents** | (267) |
| **Cash and cash equivalents at end of the period** | **386** |

[1] The projected cash flows, the data included therein, and the assumptions and estimates forming the basis thereof include "forward-looking information", as defined in the Securities Law, which is based on the Corporation's estimates regarding the results of operations and distribution of dividends of investee companies, the credit policies of the banks and non-bank institutions, and the conditions for receipt of credit from the banks and non-bank institutions, including financial covenants in the framework thereof. These estimates may not be realized, in whole or in part , or may be realized in a manner significantly different than that forecasted.

**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 income of about $706 million, compared with income of about $536 million in the corresponding period last year.

The ICL Group's sales in the period of the report amounted to about $3,457 million, compared with about $2,877 million in the corresponding period last year – an increase of about 20%. The increase stems from an increase in the sale prices, the first-time consolidation of the financial statements of companies acquired during the period, and the positive impact of changes in the exchange rates. On the other hand, the increase was partly offset by a decrease in the quantities sold.

There is a mutual interdependency between the agricultural areas available for cultivation and the quantity of food needed by the population, on the one hand, and the use of fertilizers, on the other hand. The natural increase in the population, the change in the composition of the food consumption (transition to richer nutrition, based largely on animal protein, which increases the cereal consumption) as a result of a rise in the standard of living, primarily in the developing countries, along with environmental considerations and the aspiration of the Western countries to reduce dependency on fuel imports, which have strengthened the tendency for production of fuels from agricultural sources (bio-fuels), affect the increased demand for cereals (grains, rice, soybeans, corn, etc.). In recent years these trends have led to a decline in the worldwide level of inventories of grains and, in turn, to higher prices of agricultural products, increased cereal planting worldwide, and a trend of increasing yield per unit of agricultural land, mainly by increasing the application of fertilizers.

In the short run, the demand for fertilizers is volatile and is impacted by factors such as the weather in the main agricultural growing areas worldwide, changes in the scope of the planting of the main items grown, cost of the agricultural inputs, prices of the agricultural products and the bio-technological developments. Some of these items are impacted by subsidies and credit lines granted to farmers or producers of agricultural inputs in the various countries and environmental protection regulation. The changes in the exchange rates, legislation and policies in connection with international trade also have an impact on the worldwide supply, demand and consumption levels of fertilizers. Notwithstanding the volatility that may be caused in the short run due to the above-mentioned factors, in ICL's estimation, the policy in most countries is to see to an orderly supply of high quality food to the residents, and as a result to encourage the agricultural production. Accordingly, the growth trend is expected to be maintained over the long run[2].

Towards the end of 2009, after an unprecedented low point in the global economy and, as a result, in the consumption of fertilizers, the farmers began gradually to return to use of fertilizers in larger quantities. This trend has continued up to the present time.

In July 2011, ICL Fertilizers signed agreements with a number of customers in China for supply of potash in an aggregate scope of 750 tons, in the first half of 2011, at a price similar to the price set in recent transactions with other manufacturers in the market, constituting an increase of $70 per ton over the agreement prices in the first half of 2011. Proximate to the signing of these agreements, ICL Fertilizers agreed to an increase in the quantities in the first half of 2011 by 250 tons, on the same terms as the original quantity.

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[2] The estimates with respect to future trends included in the section constitute "forward-looking information" and there is no certainty if and when they will be realized, and at what rate. The said estimates may change due to fluctuations in the world and local markets, particularly in locations where ICL manufactures and in the target markets for ICL's products, including, among other things, changes in the levels of supply and demand, prices of the products, merchandise and seeds, and they may be impacted by actions taken by the governments, producers and consumers. There is also a possible impact of the situation in the financial markets, including changes in the exchange rates, the credit situation and interest costs.

**ISRAEL CHEMICALS LTD. (Cont.)**

The high prices of the agricultural produce gave rise to significant demand for potash in the United States, and the price thereof increased gradually over the past two quarters. In June PotashCorp published new prices at the level of $650-$662 per ton.

After delays of several months in the negotiations with the Indian importers and the potash suppliers, the Canadian commercial company Canpotex gave notice of the signing of a new agreement with its customers in India. Based on Canpotex's notification, the agreement includes sale of 670 tons from October 1, 2011, up to March 31, 2012, at a price of $479 per ton, for half the quantity and $530 per ton for the second half. BCP gave notice of the signing of a new agreement with its customers in India including sale of 1.2 million tons at a price of $490 CFR per ton for the period from August 2011 and up to March 2012. Subsequent to the date of the financial report, ICL Fertilizers signed agreements with its customers in India for sale of potash for a period of eight months (August 2011 up to March 2012), whereby ICL Fertilizers will supply 1,390 thousand tons of potash at an average price of $490 per ton. In addition, options were granted for acquisition of an additional 125 thousand tons on the same terms.

The markets for ICL Industrial Products are affected, to a significant extent, by the level of activity in the electronics, construction, vehicle, oil drilling, furniture, textiles, and water treatment markets. The trend of improvement in the demand for most of the sector's products continues to be positive and is being accompanied by an increase in prices for most of the products. The increase in demand and decrease in supply of bromine in China has given rise to an increase in the selling prices of the elementary bromine, compared with the corresponding period last year and compared with the second half of 2010. The continuing increase in demand for flame-retardants in the sector stems mainly from stronger demand for electronic products in the Far East and reduced production by some of the Chinese manufacturers.

In April 2010, the Asdat fuel drilling facility in the Gulf of Mexico, which constitutes a central selling territory for ICL's products, exploded. As a result, the U.S. government announced suspension of the drilling activities in the deep waters in this region. Despite termination of the drilling suspension, the U.S. government is issuing drilling permits in the region at a very low rate and, therefore, ICL's sales to this region are low. Nonetheless, an increase in sales and prices of the clear solutions for fuel drilling was recorded compared with the corresponding period last year as a result of increase in the scope of sales made to other territories throughout the world, which derives from an increase in demand and a decline in supply by Chinese clear solution manufacturers due to an increase in the prices of the elementary bromine in China.

The activities of ICL Performance Products are affected by competition in the target markets, fluctuations of prices in the fertilizers' market, which impact the prices of the segment's main raw materials, and fluctuations of the energy prices. The current quarter was characterized by continuation of the trend of increasing prices in the fertilizers' market that gave rise to an increase in the raw material prices of phosphorous-based products. In addition, the increase in energy prices caused an increase in the production and shipping costs. Concurrently, there was an increase in the selling prices of the products of ICL Performance Products. The lack of political stability in North American and Middle Eastern countries triggered a decline in demand in certain countries in these areas.

Marine transportation costs constituted about 6% of ICL's total operating costs in the period of the report. Commencing from 2010, the bulk transportation prices have been characterized by extreme volatility, where the trend is a decline in the index. The average index for the second quarter of 2011 was 1,378 points, constituting a decline of about 55% compared with the corresponding quarter last year.

The energy costs constituted about 7% of ICL's total operating costs in the period of the report. Starting from the third quarter of 2009, the energy prices began to rise. In the present quarter, there was a further jump in the fuel prices compared with the corresponding quarter last year. The gradual increase in use of natural gas is moderating the impact of the increase in the prices of fuel and its derivatives on the Group's results.

**ISRAEL CHEMICALS LTD. (Cont.)**

The gross profit rate in the period of the report was about 44% of the sales, compared with about 42% in the corresponding period last year. The increase in the gross profit rate compared with the corresponding period last year stems mainly from an increase in the selling prices and the initial consolidation of the financial statements of companies acquired during the period. This increase was partially offset by the impact of the decline in the quantities sold, an increase in the raw material and energy prices, and the negative impact of changes in the exchange rates.

The rate of the operating income out of the total sales was about 26%, compared with about 24% last year. The increase in the marginal operating income stems mainly from the increase in the sale prices.

In the period of the report, there was an increase in ICL's net financing expenses, in the amount of about $29 million, over the corresponding period last year. The increase in the financing expenses in the period derived mainly from the change in respect of the derivative financial instruments, revaluation of the net short-term financial liabilities and the effect of the exchange rate differences on the provisions for employee benefits. On the other hand, a decline in the interest expenses gave rise to a decrease in the financing expenses.

The taxes on income in the period of the report amounted to about $157 million, compared with about $134 million, in the corresponding period last year. The rate of tax on the pre-tax income was about 18%, compared with about 20% last year. The decline in the tax rate in the period of the report compared with corresponding period last year stems from the following items:

1. The impact of the change in the dollar vis-à-vis the shekel in the period of the report compared with the corresponding period last year, which caused an increase in the tax rate on the companies operating in Israel, the source of which is differences in respect of the measurement basis.

2. The tax rate on the ordinary income in Israel declined from 25% to 24%.

3. In the period of the report, there was a decline in expenses not deductible for tax purposes compared with the corresponding period last year, as a result of a decline in the costs of options issued to Corporation employees.

**Second quarter of the period of the report compared with the corresponding quarter last year**

The net income in the second quarter of the period of the report amounted to about $426 million, compared with about $296 million in the corresponding quarter last year.

The total sales in the second quarter of the period of the report amounted to about $1,929 million, compared with about $1,495 million in the corresponding quarter last year – an increase of about 29%. This increase derives mainly from an increase in the selling prices, the first-time consolidation of the financial statements of companies acquired during the period, and the positive impact of changes in the exchange rates. On the other hand, the increase was partly offset by a decrease in the quantities sold.

The rate of the gross profit on the sales in the quarter amounted to about 45%, compared with about 44% in the corresponding quarter last year. The improvement in the gross profit rate stems from an increase in the selling prices and the first-time consolidation of the financial statements of companies acquired during the period, while on the other hand the increase was offset by a decline in the quantities sold plus, an increase in raw material prices and an increase in in maintenance expenses.

The rate of the operating income out of the total sales was about 28%, compared with about 26% last year. The increase in the operating income stems the increase in the gross profit, as stated, which was partly offset mainly by an increase in the selling and marketing expenses.

**ISRAEL CHEMICALS LTD. (Cont.)**

The net financing expenses in the second quarter amounted to about $21 million, compared with financing expenses of about $16 million, in the corresponding quarter last year. The financing expenses in the quarter derived mainly from the impact of the change in the shekel/dollar exchange rate on the liabilities in respect of employee benefits. On the other hand the increase in the was offset by a decrease in expenses relating to derivative financial instruments, revaluation of net short-term financial liabilities and a decline in interest expenses.

**Other developments in the period of account and thereafter**

1. In September 2010, the collective bargaining agreement of Dead Sea Works, a company from the ICL Fertilizers segment (hereinafter – "DSW"), ended. In November 2010, the General Workers Union announced a work dispute at DSW due to a lack of agreement in the course of negotiations for signing a new collective bargaining agreement.

   In January 2011, the Employees Council of DSW decided to institute sanctions that were expressed by, among other things, limitation of the production and maintenance processes that impacted the activities of DSW and other factories located in Hatzaria. These sanctions caused disruptions in the production processes even to the extent of stopping the activities in the production facilities, as well as halting the potash deliveries to Company customers. In February 2011, the management of DSW and the Employees Council reached understandings and the sanctions were discontinued. On the same date, an agreement in-principle was signed in connection with a new collective bargaining agreement for a period of 5 years ending in September 2015. In April 2011, the collective bargaining agreement was signed.

2. In February 2011, a transaction was completed for acquisition of the companies, assets and activities of the business unit in the specialty fertilizers area, known as The Global Professional Business from the U.S. company, Gro-Scotts Miracle. For additional details – see Note 5B2 to the financial statements.

3. In March 2011, a statement of claim of the State of Israel against a subsidiary (DSW) in the framework of arbitration in accordance with the Dead Sea Works Concession Law, 1961, was received. In the statement of claim, the State demands the amount of $265 million in respect of insufficient royalty payments for the years 2000 through 2009, with the addition of interest and linkage differences, an additional amount of $26 million due to increase in the royalty rate, commencing from 2010, with respect to the annual quantity of sales in excess of 3 million tons of potash, and change in the method of calculating royalty payments from the sale of metal magnesium. In June 2011, DSW filed a statement of defense on its behalf. As at the date of the report, each of the parties appointed an arbitrator on its behalf whereas the third arbitrator has not yet been appointed. For additional details – see Note 6F to the financial statements.

4. In March 2011, ICL signed an agreement with a group of 17 banks, mostly international banks, for provision of a credit line in the aggregate amount of $675 million, for a period of five years from the date the credit is actually granted. For additional details – see Note 6I to the financial statements.

5. In April 2011, a subsidiary in Spain acquired full ownership of S.A.A. Fuentes Mendea (hereinafter – "the Company Being Acquired"), which is engaged in production and marketing of special fertilizers in Spain. The financial statements of the Company Being Acquired are included as part of the Company's consolidated financial statements commencing from the second quarter of 2011. For additional details – see Note 5B4 to the financial statements.

6. In April 2011, the Board of Directors of ICL approved, as part of the efficiency plan of Iberpotash S.A., a Spanish subsidiary in the ICL Fertilizers segment, consolidation of the activities of Iberpotash S.A. from two locations into one location. For additional details – see Note 5B3 to the financial statements.

**ISRAEL CHEMICALS LTD. (Cont.)**

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

7. In April 2011, the State Attorney General submitted his position regarding the compromise arrangement in the class action claim filed against a subsidiary from the ICL Industrial Products segment, whereby he objects to the agreement. The subsidiary from the ICL Industrial Products segment filed its response to the position of the State Attorney General. The Court decided that if notwithstanding the response the State Attorney General continues to object to the compromise arrangement, a hearing will be held on the request for certification of the claim as a class action on October 25, 2011. For additional details – see Note 22B2B4 to the financial statements for 2010.

8. In April 2011, the Supreme Court issued a conditional order instructing the State to adopt one of the permanent solutions for protecting the Dead Sea within three months of the issuance date of the order. A hearing on the application is expected to be held in September – October 2011. In June 2011 a notice was published by the Prime Minister's Office to the effect that the solution preferred by the Prime Minister is full harvest of the salt from the bed of the pond and its removal to the Northern section of the Dead Sea. Following the Prime Minister's notice, on July 13, 2011, ICL announced that talks are being held between its representatives and officials from the Ministry of Finance regarding all the matters involved in application of the harvesting solution, including the manner of allocating the financing. A National Site Plan for the Dead Sea area (including the concession area) known as TAMA 13 is being prepared. The policy statement of the National Site Plan was recently approved by the National Council. The document presents a vision whereby the area in which the company operates will continue to for serve for industry, tourism and community residences, while preserving environmental aspects. The next step will be to prepare a Site Plan for the area based on the policy statement. For additional details – see the Immediate Report of ICL dated July 3, 2011 (2011-01-199626) and Section 17.4.8(A) to the Description of the Company's Business for 2010.

9. During the second quarter ICL Fertilizers completed the dynamic compression work on the dike surrounding its evaporation pond at the Dead Sea, as part of the comprehensive engineering plan to reinforce the dike's stability, and also commenced construction of a new partition in order to reduce the seepage from the dike to the minimum level possible. The cost of constructing the partition is estimated at about $470 million and includes raising up the dike by roughly one meter. The project is expected to be completed during 2014. For additional details – see Section 8.4.17(C) of the Description of the Corporation's Business for 2010.

10. Subsequent to the date of the report, a subsidiary of ICL, Dead Sea Bromine Ltd., received a draft of "Additional Conditions for Engaging in the Bromine Business". According to the draft, commencing from 2012 and up to 2016, transportation of bromine via Haifa Port will be restricted gradually by 50% in 2012 and down to 30% in 2016, of the total exports. In 2010, Dead Sea Bromine transported approximately 60% of the bromine for export via Haifa Port. Dead Sea Bromine has commenced preparations for transporting bromine in accordance with the draft. For additional details – see Section 8.5.15(D) of the Description of the Corporation's Business for 2010.

11. Further to Section 8.5.15(C1) of the Description of the Corporation's Business for 2010 at the initiation of the Ramat Hovav Council and in agreement with the Environmental Ministry, the outline of the evaporation ponds was changed such that some of them will be established on the basis of the existing ponds. ICL Industrial Products will commence construction of the evaporation ponds in the near future in accordance with the outline and timetables to be agreed to by all the parties involved.

12. Subsequent to the date of the report, in July 2011, Bromine Compounds in Ramat Hovav received a draft of the business license conditions in connection with the matter of air quality. The plant is presently negotiating with the authorities to formulate the final conditions of the draft regulations. For additional details – see Section 8.5.15(C4) of the Description of the Corporation's Business for 2010.

**OIL REFINERIES LTD.**

ORL completed the period of the report with income of about $24 million, compared with income of about $29 million in the corresponding period last year. Without the impact of IFRS 9 (2010), ORL finished the period of the report with income of about $1 million.

The total sales in the period of the report totaled about $4,711 million, compared with about $3,583 million in the corresponding period last year. The increase in the total sales derived mainly from an increase in the average price of the fuel products. The average price per ton of the main products' basket in the Mediterranean Sea area that is roughly the same as the basket produced by ORL was about $915 in the period of the report, compared with about $665 in the corresponding period last year.

The operating income in the period of the report amounted to about $88 million, compared with about $39 million in the corresponding period last year. The increase in the operating income derived mainly from an increase in the neutralized refining margin and an increase in the margin on the products' basket.

Set forth below is data and the impact thereof on the refining margins (dollar per ton):

| | January–June | |
|---|---|---|
| | **2011** | **2010** |
| Neutralized margin | **18.9** | 28.9 |
| Less – | | |
| Impact of application of method for recording derivatives (under IFRS) | **12.7** | 0.6 |
| Impact of timing differences of purchases and sales | **7.1** | (0.3) |
| Provision for decline in value of inventory as at the date of the report | **(2.4)** | (1.4) |
| Accounting margin | **36.3** | 27.8 |

The net financing expenses (without the impact of IFRS 9 (2010)), in the period of the report amounted to about $75 million, compared with net financing expenses of about $8 million in the corresponding period last year. The financing expenses increased in the period of the report mainly due to revaluation to fair value of the financial derivatives held by ORL, increase in the interest on the loans and debentures and the impact of exchange rate differences on monetary items.

**Second quarter of the period of the report compared with the corresponding quarter last year**

ORL completed the second quarter of the period of the report with income of about $18 million, compared with income of about $32 million in the corresponding quarter last year. Without the impact of IFRS 9 (2010), ORL finished the second quarter with income of about $18 million.

The total sales in the second quarter of the period of the report totaled about $2,653 million, compared with about $1,878 million in the corresponding quarter last year. The average price per ton of the main products' basket in the Mediterranean Sea area that is roughly the same as the basket produced by ORL was about $961 in the second quarter of the period of the report, compared with about $676 in the corresponding quarter last year.

**ZIM INTEGRATED SHIPPING SERVICES LTD.**

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

| | Six Months Ended June 30 | | Three Months Ended June 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $ Millions | | | |
| Revenues from shipping and accompanying services | **1,912** | 1,677 | **1,000** | 933 |
| Costs of shipping and accompanying services | **(1,833)** | *(1,572) | **(990)** | *(822) |
| Operating depreciation | **(81)** | (72) | **(41)** | (37) |
| Gross profit (loss) | **(2)** | 33 | **(31)** | 74 |
| Other operating income (expenses), net | **(2)** | (4) | **(4)** | 2 |
| Administrative and general expenses | **(82)** | (67) | **(44)** | (34) |
| Operating income (loss) | **(86)** | (38) | **(79)** | 42 |
| Financing income (expenses), net | **(94)** | *(40) | **11** | *(38) |
| Share in income of associated companies, net | **15** | 4 | **8** | 4 |
| Taxes on income | **(7)** | *(6) | **(5)** | *(5) |
| Income (loss) for the period | **(172)** | (80) | **(65)** | 3 |
| Attributable to: | | | | |
| Holders of rights not conferring control | **7** | (1) | **3** | – |
| The owners of the Corporation | **(179)** | (79) | **(68)** | 3 |
| | **(172)** | (80) | **(65)** | 3 |

* Reclassified.

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

| | Six Months Ended June 30 | | Three Months Ended June 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $ Millions | | | |
| Cash provided by (used in) operating activities | **25** | 77 | **(6)** | 94 |
| Acquisition of ships and equipment | **(16)** | (165) | **(8)** | (8) |
| Proceeds from sale of ships and equipment and sale of investments | **5** | 25 | **2** | 16 |
| Cash provided by (used in) financing activities | **(225)** | 148 | **(95)** | (71) |
| Total depreciation, amortization and decline in value | **99** | 91 | **54** | 42 |

**Set forth below is significant data from ZIM's statements of financial position:**

| | As at June 30 | |
|---|---|---|
| | 2011 | 2010 |
| | $ Millions | |
| Total financial liabilities | **2,638** | 2,448 |
| Total monetary assets | **386** | 228 |
| Total equity attributable to the owners | **564** | 536 |
| Total assets | **3,889** | 3,576 |
| Payments on account of construction of ships | **255** | 422 |

**ZIM INTEGRATED SHIPPING SERVICES LTD. (Cont.)**

**Set forth below is the movement in ZIM's shareholders' equity:**

| | Six Months Ended June 30 2011 |
|---|---|
| | $ Millions |
| Balance as at January 1, 2011 | 735 |
| Loss for the year | (179) |
| Reserve in respect of transactions with controlling shareholders | 8 |
| Balance as at June 30, 2011 | **564** |

**Brief description of ZIM's results:**

The loss in the period of the report attributable to ZIM's owners, without the impact of the debt arrangement on the results, amounted to about $167 million, compared with a loss of about $100 million in the corresponding period last year.

The loss in the period of the report attributable to ZIM's owners, including the impact of the debt arrangement on the results, amounted to about $179 million, compared with a loss of about $79 million in the corresponding period last year.

ZIM's revenues in the period of the report amounted to about $1,912 million, compared with about $1,677 million in the corresponding period last year – an increase of about 14%. The increase in the total sales stems mainly from an increase in the average shipping price per container, an increase in quantities and income of the subsidiaries. In the period of the report, the quantities shipped increased compared with the corresponding period last year by about 9%, from about 1,057 thousand containers to about 1,151 thousand containers. In addition, the average shipping price per container increased by about 5% from about $1,266 per container to about $1,333 per container. On the other hand, a decrease in income from uncompleted voyages partly offset the increase.

In the period of the report, ZIM's operating expenses amounted to about $1,833 million, compared with about $1,572 million in the corresponding period last year – an increase of about 17%. The increase in the operating expenses stems mainly from an increase in fuel expenses, in the amount of about $88 million, in the expenses of the subsidiaries and other expenses, in the amount of about $96 million, and in port service expenses, in the amount of about $27 million.

The other income (expenses), net, in the period of the report amounted to expenses of about $2 million, compared with expenses of about $4 million in the corresponding period last year. The decrease in the other income (expenses), net, stems mainly from a decline in a provision in respect of a ship cancellation event that occurred in the corresponding period last year.

In the period of the report, the administrative and general expenses increased at the rate of about 22%. The increase stems mainly from an increase in professional consultation and salary expenses, as well as from an upward revaluation of the shekel/dollar exchange rate.

ZIM's operating loss in the period of the report amounted to about $86 million, compared with a loss of about $38 million in the corresponding period last year. The increase in the operating loss stems mainly from an increase in the operating expenses, in the amount of about $261 million, which was partially offset by an increase in the revenues, in the amount of about $235 million.

**ZIM INTEGRATED SHIPPING SERVICES LTD. (Cont.)**

ZIM's EBITDA[3] in the period of the report amounted to about $13 million, compared with EBITDA of about $53 million in the corresponding period last year.

ZIM's net financing expenses in the period of the report increased by about $54 million over the corresponding period last year. The increase in the financing expenses stems mainly from recording financing expenses in the current period in respect of the debt arrangement, in the aggregate amount of about $17 million, compared with recording of financing income of about $19 million in the corresponding period last year, an increase in interest expenses of about $13 million, and an increase in exchange rate and linkage expenses, in the amount of about $8 million, offset by a decrease in the loss from hedging transactions, in the amount of about $3 million.

**Second quarter of the period of the report compared with the corresponding quarter last year**

The loss in the quarter attributable to ZIM's owners, amounted to about $68 million, compared with income of about $3 million in the corresponding quarter last year. The loss attributable to ZIM's owners in the second quarter, without the impact of the debt arrangement on the results, amounted to about $124 million, compared with income of $20 million, in the corresponding quarter last year.

ZIM's revenues in the second quarter of the report amounted to about $1,000 million, compared with about $933 million in the corresponding quarter last year – an increase of about 7%. The increase in the revenues derives mainly from an increase in the quantities shipped and revenues of subsidiaries. The quantities shipped increased by about 9% from about 547 thousand containers to about 596 thousand containers. On the other hand, declines in the shipping fees and revenues from uncompleted voyages partly offset the increase. In the second quarter, the average shipping fees per container decreased by 2% – from about $1,328 per container to about $1,307 per container.

In the second quarter of the report, ZIM's operating expenses amounted to about $990 million, compared with about $822 million in the corresponding quarter last year – an increase of about 20%. The increase in the operating expenses stems mainly from an increase in fuel expenses, in the amount of about $60 million, in the expenses of the subsidiaries and other expenses, in the amount of about $63 million, and in port service expenses, in the amount of about $20 million.

In the second quarter, the administrative and general expenses increased by about $10 million over the corresponding quarter last year. The increase stems mainly from an increase in professional consultation and salary expenses, as well as from an upward revaluation of the shekel/dollar exchange rate.

ZIM's operating loss in the second quarter amounted to about $79 million, compared with operating income of about $42 million in the corresponding quarter last year. ZIM's transition to an operating loss stems mainly from an increase in the operating expenses, in the amount of about $168 million, which was partially offset by an increase in the revenues, in the amount of about $67 million.

ZIM's EBITDA in the second quarter amounted to a negative about $25 million, compared with EBITDA of about $83 million in the corresponding quarter last year.

ZIM's net financing expenses in the second quarter amounted to about $11 million, compared with net financing expenses of about $38 million in the corresponding quarter last year. The increase in the financing expenses stems mainly from recording financing income in the current quarter in respect of the debt arrangement, in the amount of about $53 million, compared with recording financing expenses in the amount of about $18 million, in the corresponding quarter last year, offset by an increase in exchange rate and linkage expenses, in the amount of about $10 million, and an increase in interest expenses, in the amount of about $8 million.

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[3] The EBITDA is calculated as operating income or loss plus depreciation and amortization.

**ZIM INTEGRATED SHIPPING SERVICES LTD. (Cont.)**

**Other developments in the period of the report and thereafter:**

1. In November 2000, ZIM signed an agreement with interested parties therein whereby ZIM leased, commencing from April 15, 2002, the ship "ZIM Panama" (having a capacity of 5,000 containers) for a period of 10 years. As part of the said agreement, ZIM was granted three options (unilateral) whereby as part of each option ZIM will be granted the possibility of extending the lease period for two additional years, provided each option is exercised 12 months prior to the end of the prior lease period, that is, ZIM was required to exercise the first option up to April 15, 2011 (hereinafter – "the First Option Period").

   Pursuant to the said agreement, the lease fees for the original lease period were between $22,700 and $23,150 (updated bi-annually as stipulated in the agreement); and the lease fees under the agreement for the First Option Period are $23,550 per day.

   ZIM believes, among other things, that based on the estimates received, the conditions of the undertaking described above are better than the market terms and, therefore, in accordance with decisions of ZIM's Audit Committee on March 22, 2011, and its Board of Directors on March 23, 2011 ZIM decided to exercise the first option to extend the lease, as stated above.

   The Audit Committee and Board of Directors of Israel Corporation approved the undertaking at their meetings on March 29, 2011. In accordance with the above-mentioned decisions and the Relief Regulations, ZIM exercised the extension option for rental of the ship.

2. In November 2000, ZIM signed an agreement with interested parties therein whereby ZIM leased, commencing from February 28, 2002, the ship "ZIM Mediterranean" (having a capacity of 5,000 containers) for a period of 10 years. As part of the said agreement, ZIM was granted three options (unilateral) whereby as part of each option ZIM will be granted the possibility of extending the lease period for two additional years, provided each option is exercised 12 months prior to the end of the prior lease period, that is, ZIM was required to exercise the first option up to February 28, 2011. In addition to that stated, at the request of ZIM, the lessor of the ship notified ZIM that it is granted the possibility of giving notice of exercise of the option up to April 30, 2011. Pursuant to the said agreement, the lease fees for the original lease period were between $22,700 and $23,150 (updated bi-annually as stipulated in the agreement); and the lease fees under the agreement for the first option period are $23,550 per day.

   ZIM believes that, among other things, based on the estimates received, the conditions of the undertaking described above are better than the market terms and, therefore, in accordance with decisions of ZIM's Audit Committee and its Board of Directors on March 21, 2011, ZIM decided to exercise the first option to extend the lease, as stated above.

   The Audit Committee and Board of Directors of Israel Corporation approved the undertaking at their meetings on February 24, 2011. In accordance with the above-mentioned decisions and the Relief Regulations, ZIM exercised the extension option for rental of the ship.

**ZIM INTEGRATED SHIPPING SERVICES LTD. (Cont.)**

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

3. In November 2000, ZIM signed an agreement with interested parties therein whereby ZIM leased, commencing from June 6, 2002, the ship "ZIM California" (having a capacity of 5,000 containers) ("the Ship") for a period of 10 years. As part of the said agreement, ZIM was granted three options (unilateral) whereby as part of each option ZIM will be granted the possibility of extending the lease period for two additional years, provided each option is exercised 12 months prior to the end of the prior lease period, that is, ZIM was required to exercise the first option up to February 28, 2011. In addition to that stated, at the request of ZIM, the lessor of the ship notified ZIM that it is granted the possibility of giving notice of exercise of the option up to June 6, 2011.

   Pursuant to the said agreement, the lease fees for the original lease period were between $22,700 and $23,150 (updated bi-annually as stipulated in the agreement); and the lease fees under the agreement for the first option period are $23,550 per day.

   ZIM believes that, among other things, based on the estimates received, the conditions of the undertaking described above are better than the market terms and, therefore, in accordance with decisions of ZIM's Audit Committee and its Board of Directors on May 23, 2011, ZIM decided to exercise the first option to extend the lease, as stated above.

   The Audit Committee and Board of Directors of Israel Corporation approved the undertaking at their meetings on May 25, 2011. In accordance with the above-mentioned decisions and the Relief Regulations, ZIM exercised the extension option for rental of the ship.

4. On September 26, 2010, S&P Maalot (hereinafter – "Maalot") notified ZIM regarding raising of the rating of its debentures to ilBB+ with a positive rating outlook. On September 24, 2011, Maalot notified ZIM regarding raising of the rating of its debentures to ilBBB– with a stable rating outlook.

5. In July 2007, ZIM entered into an agreement for acquisition of two container ships with a capacity of 2,450 TEU's each, which were scheduled for delivery to ZIM in 2010. The price of each ship; (not including technical additions in amounts that are not significant), based on the rate of exchange in effect on the date of the transaction, is about $47.6 million[4]. In March 2008, ZIM signed an agreement with a third party (unrelated) for sale of one ship at the ship price denominated in the contract in Japanese yens (back-to-back) and lease thereof by ZIM in a vessel lease for a period of 15 years. ZIM has an option to purchase the ship at the end of the period at a price of $13.5 million or, alternatively, to extend the lease period for an additional 5 years, at the end of which the ship will be acquired for $1.

   During the first 15 years, the lease fees will be $13,400 per day, while during the next 5 years, the lease fees will be $9,500 per day.

   As part of the rehabilitation plan, ZIM reached agreement to postpone construction and/or delivery of the ship acquired (that was not sold) by ZIM while changing the structure of the payments in connection with acquisition of the ship. In March 2011, it was agreed with the shipyard to cancel construction of the ship against compensation in the amount of the first payment, which was paid to the shipyard.

[4] The ship prices in the framework of the undertakings are denominated in Japanese yens (JPY).

**ZIM INTEGRATED SHIPPING SERVICES LTD. (Cont.)**

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

6. As part of the Arrangements Law 2011-2012 it was decided to cancel the exemption provided in Section 3(7) of the Law, to the extent it addresses marine shipping. Cancellation of the exemption will enter into effect at the end of two months from the publication date of a class exemption with respect to operating arrangements covering international shipping or on January 1, 2012 – whichever occurs first. The Minister of Finance is authorized to postpone the said date (January 1, 2012) for periods of six months each time until a class exemption is promulgated, as stated. According to that stated in the Arrangements Law, the Supervisor of Restrictive Business Practices was authorized to provide a class exemption with respect to an operating arrangement covering international oversea shipping involving one of the following – (A) adjustment of the average shipping capacity on every vessel in response to fluctuations in supply and demand in the market; (B) joint operation of shipping services or of ports and operating-related services as stated; (C) accompanying activities required for realization of the activities stated in Sections (A) and (B) above.

7. On May 11, 2006, the General Meeting of Israel Corporation approved a "framework agreement"[5], further to the "Ship Lease Procedure for Short Periods from Interested Parties in ZIM"[6] (hereinafter – "the Procedure"), which constitutes a framework for continuation of the joint cooperation between ZIM and "the Ofer Group" which commenced in 1969. The subject of the Framework Agreement is a joint venture agreement between ZIM and Ofer (Ship Holdings) Ltd. and Ofer Shipping Ltd. (hereinafter – "Ofer Shipping" and "the Framework Agreement", respectively), for a period of 12 years commencing from the approval date of the General Meeting (hereinafter – "the Joint Cooperation Period"), however Israel Corporation undertook an obligation whereby every 4 years from the date of approval by the General Meeting of the Framework Agreement, and shortly before the Annual General Meeting of Israel Corporation, the Audit Committees and Boards of Directors of ZIM and Israel Corporation will discuss continuation of joint cooperation for an additional four-year period. Subject to approval by the organs, as stated, of continuation of the joint cooperation, Israel Corporation will bring continuation of the joint cooperation for approval by the Annual General Meeting of Israel Corporation.

   May 2010, was the first date for approval of continuation of the joint cooperation and, therefore, the agreement was approved by ZIM's Audit Committee and Board of Directors. However, continuation of the joint cooperation was not brought for approval by the Annual General Meeting of Israel Corporation and, therefore, as at the date of the report, the Framework Agreement is not in effect.

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[5] Within the meaning thereof in Regulation 1(3) of the Companies Regulations (Transactions with Interested Parties), 2000.

[6] On January 3, 2006, ZIM's Audit Committee and Board of Directors approved a lease procedure for ships for short periods from interested parties in ZIM. For the sake of good order, the Procedure was also approved on January 4, 2006, by Corporation's Audit Committee and Board of Directors. The Procedure provides principles for examination of the terms of the ship lease transactions for short periods (up to 5 years) from interested parties in ZIM. For purposes of determining whether a ship lease is for a short period, and therefore is embraced by the procedure, it was provided that the option periods granted to ZIM in the lease agreement for the original lease period will be added, and in a case where the original lease period together with the option period add up to a period of more than 5 years, the lease will not be considered a lease for a short period for purposes of the Procedure. The Procedure provides criteria, rules and limitations in connection with the classification of lease transactions for a short period from interested parties as transactions that may be approved as part of the Procedure as transactions that are not extraordinary (within the meaning thereof in the Companies Law, 1999). The Procedure also provides that leasing of ships for short periods from interested parties is to be made on market terms, pursuant to the mechanism stipulated in the Procedure. Regarding the Procedure and details in respect thereof – see the Immediate Report of Israel Corporation dated January 5, 2006.

**ZIM INTEGRATED SHIPPING SERVICES LTD. (Cont.)**

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

8. In light of the situation in the market, subsequent to the period of the report, ZIM's Board of Directors decided to update ZIM's forecasts based on certain assumptions regarding the behavior of the markets and the prices and with respect to realization of ZIM's work plan over the upcoming years.

Set forth below is an updated forecast of ZIM's cash flows[7]:

| | H2/2011–2012 | 2013 | Total |
|---|---|---|---|
| | | $ Millions | |
| Cash flows (available for utilization) from current operating activities* | 269 | 231 | 500 |
| Cash flows from investing activities | (73) | (47) | (120) |
| Cash flows, net, from sale of assets | 62 | 7 | 69 |
| Cash flows from financing activities – receipt of loans | 85 | 200 | 285 |
| Cash flows from financing activities – repayment of loans | (411) | (275) | (686) |
| | (68) | 116 | 48 |

* Includes interest payments.

9. In light of that stated in Section 8 above, subsequent to the period of the report, ZIM and ZIM subsidiaries signed agreements with the financing banks that are secured creditors and to which ZIM is required to comply with financial covenants (hereinafter – "the Banks"), as detailed below, for change of the said financial covenants. Pursuant to that stated, set forth below are the highlights of agreements formulated by ZIM with the banks:

   A. Minimum EBITDA (the EBTIDA was determined in accordance with its definition in the agreements with the Banks and includes adjustments to ZIM's financial statements – see Note 7 to the financial statements) – the minimum required amounts determined were reduced. The minimum amount as at the date of the first examination after the revision, i.e., September 30, 2011 (on the basis of the nine months preceding the examination date) is $50 million and this amount will increase gradually such that from December 31, 2013 (and on every examination date thereafter) the minimum amount will be $250 million (on an annual basis) for the twelve months preceding the examination date.

[7] The estimates and forecasts presented in this section above constitute "forward-looking information". Forward-looking information is uncertain information regarding the future. This information is based on, among other things, ZIM's estimates and assumptions regarding supply and demand trends in the marine container shipping market, on estimates and assumptions regarding various items of data dependent on, among other things, various external factor not under ZIM's control, for example, marine shipping tariffs, fuel prices, ship leasing fees, recovery of the world economy from the recession, recovery of the marine shipping market, the scope of the international trading, as well as ZIM's ability to carry out its business plan in the upcoming years, including execution of an investments and/or sale of assets plan, receipt of ships ordered on time and obtaining financing on certain terms, repayment of loans, etc. ZIM's estimates on the basis of which the information is based, as stated, may ultimately turn out to be incorrect and/or significantly different than that presented, and there is no certainty at this stage that these estimates and assumptions, in whole or in part, will be realized in the future.

**ZIM INTEGRATED SHIPPING SERVICES LTD. (Cont.)**

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

9. (Cont.)

B. Total secured leverage ratio – increase in the ratio for the period such that the maximum ratio at the first examination date after the revision, i.e., September 30, 2011 will be 20:1 (on the basis of the past nine months), which will be gradually reduced during the period of the loan such that commencing from December 31, 2013 (and on every examination date thereafter) the total secured leverage ratio will be 3:1 (on an annual basis).

C. Interest coverage ratio – decrease in the ratio for the period such that the first interest coverage ratio after the revision, i.e., September 30, 2011 will be 0.6:1 (on the basis of the past nine months), which will be gradually increased during the period of the loan such that commencing from December 31, 2013 (and on every examination date thereafter) the interest coverage ratio will be 2.5:1 (on an annual basis).

D. Loan to value ratio – if and to the extent ZIM raises an amount of $400 million or more by means of a public issuance of shares or an issuance of debentures, such a ratio will be added to the banks financing the ships, at a rate that will be determined in the future by agreement of the parties.

E. Dividend – up to entry into effect of the loan to value financial covenant ZIM will not be permitted to distribute a dividend.

F. Minimum liquidity – $80 million.

As part of the said undertaking, the repayment schedule for the debt will change such that the amount of about $45 million out of the total debt, which was supposed to have been repaid during the upcoming years based on ZIM's present repayment schedule, will be repaid on earlier dates during the upcoming months (and correspondingly the amount to be repaid in the upcoming years will be reduced) and a one-time commission will be paid.

As at June 30, 2011, ZIM was in compliance with the financial covenants determined with the banks.

As part of the said undertaking for change of the financial covenants, two subsidiaries of ZIM (ship companies) were included, which are held jointly by ZIM and Ofer Shipping Ltd. (50/50). The undertaking as stated is in the ordinary course of business and on market terms similar to the terms entered into by all of ZIM's other wholly owned subsidiaries.

According the decision of the Audit Committee of ZIM's Board of Directors of August 10, 2011, it was decided to approve the undertaking as stated above. The Audit Committee and Board of Directors of Israel Corporation approved the undertaking at their meetings held on August 10, 2011 and August 14, 2011, respectively.

10. Regarding a compromise in the arbitration of ZIM with a shipping company – see Note 6H to the financial statements.

**I.C. POWER LTD.**

As noted in Section 11.2 of the Description of the Corporation's Business for 2010, in 2010 the Corporation transferred its holdings in Inkia Energy Ltd. (hereinafter – "Inkia") and in O.P.C. Rotem Ltd. (hereinafter – "OPC") to I.C. Power.

**I.C. POWER LTD. (Cont.)**

I.C. Power finished the period of the report with net income of about $20 million, compared with income of about $24 million in the corresponding period last year.

After eliminating the financing expenses to Israel Corporation the net income for the period amounted to about $26 million, compared with income of about $28 million in the corresponding period last year.

I.C. Power's total revenues in the period of the report amounted to about $277 million, compared with about $223 million in the corresponding period last year.

I.C. Power's proportionate EBITDA (the proportionate amount of the EBITDA of each of the operating investee companies) in the period of the report amounted to about $93 million, compared with proportionate EBITDA of about $68 million in the corresponding period last year.

As at the date of the report, I.C. Power's net consolidated debt (excluding the loan from Israel Corporation) amounted to about $409 million, compared with a net consolidated debt of about $286 million in the corresponding period last year.

As at the date of the report, I.C. Power's net proportionate debt (the net debt of I.C. Power plus its proportionate share in the net debt of each of the investee companies) amounted to about $398 million, compared with a net proportionate debt of about $302 million in the corresponding period last year.

**Second quarter of the period of the report compared with the corresponding quarter last year**

I.C. Power finished the second quarter of the period of the report with income of about $8 million, compared with income of about $9 million in the corresponding quarter last year.

I.C. Power's proportionate EBITDA in the second quarter of the period of the report amounted to about $49 million, compared with proportionate EBITDA of about $33 million in the corresponding quarter last year.

**Set forth below are the main factors affecting I.C. Power's results in the period of the report:**

1. Improvement in the revenues due to entry into service of the third turbine on the Kallpa site in March 2010, which was partly offset by an increase in the financing and depreciation expenses due to commencement of operation of the turbine, along with an increase in the maintenance expenses on the Kallpa site in the first quarter.

2. Delay in the start of the rainy season in El Salvador compared with the corresponding period last year caused an increase in the production and sale prices, as well as income of a company in the Inkia Group in El Salvador, which produces electricity through use of crude oil. On the other hand, the increase in maintenance costs.

3. Increase in the financing expenses compared with the corresponding period last year due to an increase in the financial liabilities resulting from commencement of accrual of financing expenses in respect of the third turbine on the Kallpa site, issuance of debentures in the amount of about $300 million made by in Inkia in April 2011, an increase in the financing expenses to Israel Corporation, cost of early repayment of debentures issued by Inkia in Peru in 2008 and closing of a currency SWAP transaction in respect of the debentures, along with hedging transaction with respect to liabilities of O.P.C. not recognized for accounting purposes.

4. Increase in the sale prices of Edegel S.A.A., an associated company, contributed to an improvement in the Company's share in the results of associated companies.

**I.C. POWER LTD. (Cont.)**

**Other developments in I.C. Power**

1. In April 2011, Inkia issued $300 million par value of debentures on the international market – see also Note 5E3 to the financial statements.

2. In February 2011, Inkia published a tender offer for shares of Edegel S.A.A. as a result of an agreement with the Peru Securities Authority. The tender offer ended on March 8, 2011 with no response whatsoever.

3. In March 2011, a subsidiary of I.C. Power in Peru won a tender published for supply of electricity from new hydro-electric power plants in Peru, in an overall scope of 200 megawatts, whereby the subsidiary will supply electricity to the electric company owned by the government of Peru during a period of 15 years commencing in January 2016. The annual scope of the tender is about $75 million. Winning of the tender for sale of electricity constitutes a part of the preparations for construction of the hydro-electric plant and raising of the financing for its construction.

4. As at the signing date of the financial statements, I.C. Power signed five agreements for supply of electricity for periods of about 10 years. Some of the agreements include options to increase the quantity of electricity purchased. In O.P.C.'s estimation, taking into account the options to increase the quantity of electricity purchased, the total quantity of electricity purchased under the said agreements is about 300 megawatts. Some of these agreements are subject to approval of a government authority. Furthermore, O.P.C. is in the final stages of an undertaking in an agreement for supply of electricity to ORL, in the overall amount of about 115 megawatts. After the agreement with ORL, most of O.P.C.'s electricity production was sold to customers in long-term agreements.

5. In January 2011, a rating of AA3 with a stable outlook was approved by the Rating Committee of Midrug Ltd. for the senior debt of O.P.C., in connection with a project for construction of a power station. The rating relates to the operation period.

6. In January 2011, OPC signed an amendment to the agreement for purchase of electricity, the Power Purchase Agreement, with Israel Electric Company. For details – see Note 5E5 to the financial statements.

7. In the period of the report, the shareholders of OPC provided bank guarantees to Israel Electric Company, in accordance with their proportionate interests. Accordingly, the collaterals that served as the bank guarantee were released and returned to the owners. For additional details – see Note 22C5b to the financial statements as at December 31, 2010.

8. On January 2, 2011, an agreement was signed with a consortium of lenders led by Bank Leumi L'Israel Ltd. for financing construction of a power plant (hereinafter – "the Financing Agreement"). For details – see Note 5E7 to the financial statements.

9. <u>Projects under construction</u>:

   A. In 2009, Kallpa Generacion S.A. (Peru) (hereinafter – "Kallpa"), a subsidiary of Inkia, started a project for conversion of its thermal plant to running based on a combined turnover. The cost of the project is estimated at about $400 million. As at June 30, 2011, Kallpa had invested about $191 million in the project.

   B. In 2010, OPC commenced construction of a power station having a capacity of about 440 megawatts. As at June 30, 2011, OPC had invested about $145 million in the project.

**TOWER SEMICONDUCTOR LTD.**

In the period of the report, Tower's sales amounted to about $260 million, compared with about $239 million in the corresponding period last year – an increase of about 9%, while the cost of sales decreased by about 1%. The gross profit in the period of the report amounted to about $60 million, compared with gross profit of about $38 million in the corresponding period last year.

Tower finished the period of the report (pursuant to IFRS) with a loss of about $7 million, compared with a loss of about $44 million in the corresponding period last year.

The financing expenses (pursuant to IFRS) in the period of the report amounted to about $33 million, compared with about $42 million in the corresponding period last year.

In the second quarter of the period of the report, Tower's income (pursuant to IFRS) amounted to about $3 million, compared with a loss of about $9 million in the corresponding quarter last year.

The total sales in the second quarter of the period of the report amounted to about $140 million, constituting an increase of about 11% compared with the corresponding quarter last year and an increase of about 16% compared with the first quarter of the period of the report.

**BETTER PLACE INC.**

As at the date of the report, Better Place had not yet commenced its commercial activities. Better Place's net loss in the period of the report, including interest expenses to the holders of the preferred shares, amounted to about $74 million, compared with a loss of about $33 million in the corresponding period last year.

In the second quarter of the period of the report, the loss, including interest to the holders of the preferred shares, amounted to about $20 million, compared with a loss of about $29 million in the corresponding quarter last year.

**CHERY QUANTUM LIMITED**

As at the date of the report, Chery Quantum had not yet commenced its commercial activities. Chery Quantum's net loss in the period of the report amounted to about $82 million, compared with a loss of about $4 million in the corresponding period last year.

In the second quarter of the period of the report, the loss amounted to about $32 million, compared with a loss of about $1 million in the corresponding quarter last year.

**SOURCES OF FINANCING FOR THE CORPORATION AND THE HEADQUARTERS COMPANIES**

As at June 30, 2011, the total financial liabilities of the Corporation and of the wholly owned and controlled headquarters companies (hereinafter – "the Headquarters Companies") amounted to about $2,680 million. The fair value of interest rate, currency and index SWAP transactions, mainly in respect of the debentures, economically reduces the liabilities by the amount of about $296 million.

As at the date of the report, the investments of the Corporation and of the Headquarters Companies in liquid assets amounted to about $653 million. The investments are mainly in dollar deposits.

The net debt of the Corporation and of the Headquarters Companies as at the date of the report was about $1,731 million.

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

The Corporation received long-term loans from institutional investors in the amount of $100 million with an average life of 5 years, of which $50 million was received subsequent to the date of the report.

In the period of the report, the Corporation paid current maturities of debentures and long-term loans in the amount of about $23 million.

As at June 30, 2011, the scope of the exposure of the Headquarters Companies to a decline in the shekel exchange rate against the dollar was about $230 million. The scope of the exposure to a rise in the Consumer Price Index was about $150 million and to an increase in the Libor interest rate about $720 million.

As at the signing date of the financial statements, the currency exposure and the exposure to the CPI decreased by about $20 million, and the exposure to variable interest rates decreased by about $75 million.

**EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT**

**Corporation's Consolidated Derivative Positions as at June 30, 2011**

| | Par value in $ millions | | Fair value in $ millions | |
|---|---|---|---|---|
| | Long | Short | Long | Short |
| **Hedging changes in variable LIBOR interest rates on dollar loans** | | | | |
| **IRS transaction over one year – recognized for accounting** | 132 | – | (10) | – |
| **Over one year – not recognized for accounting** | | | | |
| CAP options | 620 | – | 2 | – |
| FLOOR options | 620 | – | (29) | – |
| Other options | 30 | – | (1) | – |
| IRS transactions | 1,511 | 48 | (73) | 6 |
| Collar transactions | 150 | – | (7) | – |
| **Up to one year – not recognized for accounting** | | | | |
| IRS transactions | – | 20 | – | 1 |
| **Hedging changes in exchange rate, CPI and interest rate on loans, over one year** | | | | |
| SWAP to dollar liability with variable interest from index-linked liability with fixed interest over one year – not recognized | – | 1,156 | – | 360 |
| SWAP to dollar liability with variable interest from shekel liability with fixed interest – not recognized | – | 306 | – | 13 |
| SWAP to dollar liability with fixed interest from index-linked liability with fixed interest – not recognized | – | 13 | – | 4 |
| SWAP to dollar liability with fixed interest from shekel liability with fixed interest – not recognized | – | 92 | – | 9 |
| SWAP to dollar liability with fixed interest from shekel liability with fixed interest – recognized for accounting purposes | – | 179 | – | 15 |
| **Hedging changes in the CPI and CPI-linked interest rate on cash flows – not recognized for accounting purposes** | | | | |
| Forward contract for acquisition of CPI differences – more than one year | 106 | – | 3 | – |
| Forward contract for acquisition of CPI differences – up to one year | 26 | – | 1 | – |
| Transactions for fixing index-linked interest rate | 173 | – | (5) | – |

**EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)**

**Corporation's Consolidated Derivative Positions as at June 30, 2011**

| | Par value in $ millions | | Fair value in $ millions | |
|---|---|---|---|---|
| | Long | Short | Long | Short |
| **Other derivatives in subsidiary – more than one year – not recognized for accounting purposes** | | | | |
| Option for issuance of debt | 50 | – | 9 | – |
| Forward transaction for early repayment of debentures of subsidiary | 401 | – | 136 | – |
| Option issued for lease price of ships | – | – | (37) | – |
| **Hedging changes in the CPI on cash flows – up to one year – not recognized for accounting purposes** | | | | |
| **Euro/Dollar** | | | | |
| Forward contract | 196 | – | (1) | – |
| Call options | 173 | – | (9) | – |
| Put options | 173 | – | 3 | – |
| **Shekel/Dollar** | | | | |
| Forward contract | 122 | 233 | (1) | 2 |
| Call options | – | 326 | – | (3) |
| Put options | – | 422 | – | 16 |
| **Yen/Dollar** | | | | |
| Call options | 21 | – | – | – |
| Put options | 19 | – | – | – |
| **British Pound/Euro** | | | | |
| Forward contract | 7 | – | – | – |
| Call options | 20 | – | (1) | – |
| Put options | 20 | – | – | – |
| **Forward Contracts** | | | | |
| Dollar / British pound | 46 | – | – | – |
| Shekel / yen | 81 | – | 1 | – |
| Chinese yuan / dollar | – | 42 | – | – |
| Chinese yuan / dollar – more than one year | – | 133 | – | 4 |
| **SWAP transactions for hedging fuel prices** | | | | |
| Forward contracts | – | 136 | – | 1 |
| Call options | – | 17 | – | 1 |
| **SWAP transactions for hedging energy prices and shipping fees** | | | | |
| Up to one year | 28 | – | (9) | – |
| More than one year | 29 | – | (8) | – |

Long – dollar receipt against the counter currency and in other foreign currency transactions receipt in the leading currency.
Short – dollar payment against the counter currency and in other foreign currency transactions payment in the leading currency.

**EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)**

Sensitivity analyses in respect of changes in market factors (consolidated)

Sensitivity to changes in shekel interest linked to the CPI:

| | Increase (decrease) in fair value | Increase (decrease) in fair value | Fair value | Increase (decrease) in fair value | Increase (decrease) in fair value |
|---|---|---|---|---|---|
| | $ millions | $ millions | $ millions | $ millions | $ millions |
| | Rise of 1% | Rise of 0.5% | | Fall of 0.5% | Fall of 1% |
| **Instrument Type** | | | | | |
| Long-term loans | 20 | 10 | (264) | (11) | (22) |
| Debentures | 67 | 34 | (2,166) | (35) | (71) |
| SWAP transactions from index to variable dollar* | (51) | (26) | 364 | 26 | 54 |
| Hedge transactions on CPI interest | 14 | 7 | (4) | (8) | (16) |
| Total | **50** | **25** | **(2,070)** | **(28)** | **(55)** |

Sensitivity to changes in shekel interest:

| | Increase (decrease) in fair value | Increase (decrease) in fair value | Fair value | Increase (decrease) in fair value | Increase (decrease) in fair value |
|---|---|---|---|---|---|
| | $ millions | $ millions | $ millions | $ millions | $ millions |
| | Rise of 1% | Rise of 0.5% | | Fall of 0.5% | Fall of 1% |
| **Instrument Type** | | | | | |
| Debentures | 12 | 6 | (462) | (6) | (13) |
| SWAP transactions from shekel to variable dollar* | (17) | (9) | 36 | 9 | 18 |
| Total | **(5)** | **(3)** | **(426)** | **3** | **5** |

* These transactions were entered into for exchange of currency and/or interest rate in respect of the liabilities.

**EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)**

**Sensitivity analyses in respect of changes in market factors (consolidated) (Cont.)**

Sensitivity to changes in Libor interest:

| | Increase (decrease) in fair value | Increase (decrease) in fair value | Fair value | Increase (decrease) in fair value | Increase (decrease) in fair value |
|---|---|---|---|---|---|
| | $ millions | $ millions | $ millions | $ millions | $ millions |
| | Rise of 1% | Rise of 0.5% | | Fall of 0.5% | Fall of 1% |
| **Instrument Type** | | | | | |
| Derivatives in respect of debt arrangement in subsidiary | (3) | (1) | 48 | 1 | 3 |
| Long-term loans from banks – fixed interest | 19 | 10 | (726) | (10) | (21) |
| Debentures | 29 | 15 | (613) | (16) | (32) |
| SWAP transactions from shekel and index to fixed dollar* | 6 | 3 | 27 | (2) | (4) |
| IRS transactions variable to fixed* | 30 | 15 | (68) | (16) | (29) |
| COLLAR transactions* | 14 | 7 | (33) | (7) | (13) |
| SWAPTION options | 1 | – | (1) | (1) | (1) |
| Total | **96** | **49** | **(1,366)** | **(51)** | **(97)** |

Sensitivity to changes in the CPI:

| | Increase (decrease) in fair value | Increase (decrease) in fair value | Fair value | Increase (decrease) in fair value | Increase (decrease) in fair value |
|---|---|---|---|---|---|
| | $ millions | $ millions | $ millions | $ millions | $ millions |
| | Rise of 1% | Rise of 0.5% | | Fall of 0.5% | Fall of 1% |
| **Instrument Type** | | | | | |
| Long-term deposits and loans | 8 | 4 | 83 | (4) | (8) |
| Long-term bank loans | (26) | (13) | (264) | 13 | 26 |
| Debentures | (216) | (108) | (2,166) | 108 | 216 |
| SWAP transactions from index to variable dollar* | 160 | 80 | 364 | (80) | (160) |
| Acquisition of index differentials* | 15 | 7 | 4 | (7) | (15) |
| Embedded derivative | 20 | 10 | 14 | (10) | (20) |
| Total | **(39)** | **(20)** | **(1,965)** | **20** | **39** |

* These transactions were entered into for exchange of currency and/or interest rate in respect of the liabilities.

**EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)**

**Sensitivity analyses in respect of changes in market factors (consolidated) (Cont.)**

Sensitivity to changes in exchange rates:

**Shekel/USD**

| | Increase (decrease) in fair value | Increase (decrease) in fair value | Fair value | Increase (decrease) in fair value | Increase (decrease) in fair value |
|---|---|---|---|---|---|
| | $ millions | $ millions | $ millions | $ millions | $ millions |
| | Rise of 10% | Rise of 5% | | Fall of 5% | Fall of 10% |
| **Instrument Type** | | | | | |
| Cash and cash equivalents | (7) | (4) | 72 | 4 | 7 |
| Short-term deposits and loans | (28) | (14) | 279 | 14 | 28 |
| Trade receivables | (8) | (4) | 80 | 4 | 8 |
| Other receivables and debits | (9) | (4) | 89 | 5 | 9 |
| Other long-term receivables and debits | (1) | – | 6 | – | 1 |
| Long-term deposits and loans | (22) | (11) | 219 | 11 | 22 |
| Trade and other payables | 31 | 16 | (314) | (16) | (32) |
| Other payables and credits | 20 | 10 | (205) | (10) | (21) |
| Liabilities for employee rights | 6 | 3 | (66) | (3) | (7) |
| Long-term bank loans | 25 | 13 | (267) | (14) | (29) |
| Debentures | 244 | 127 | (2,659) | (138) | (290) |
| SWAP transactions from index and shekel to dollar | (198) | (104) | 401 | 115 | 243 |
| Currency options | (25) | (14) | 14 | 20 | 43 |
| Forward currency transactions | (9) | (5) | 1 | 5 | 10 |
| Embedded derivative | 8 | 4 | 3 | (4) | (8) |
| Total | **27** | **13** | **(2,347)** | **(7)** | **(16)** |

**EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)**

**Sensitivity analyses in respect of changes in market factors (consolidated) (Cont.)**

Sensitivity to changes in exchange rates: (Cont.)

**EURO/USD**

| | Increase (decrease) in fair value | Increase (decrease) in fair value | Fair value | Increase (decrease) in fair value | Increase (decrease) in fair value |
|---|---|---|---|---|---|
| | $ millions | $ millions | $ millions | $ millions | $ millions |
| | Rise of 10% | Rise of 5% | | Fall of 5% | Fall of 10% |
| **Instrument Type** | | | | | |
| Cash and cash equivalents | (7) | (3) | 70 | 4 | 7 |
| Short-term deposits and loans | (4) | (2) | 38 | 2 | 4 |
| Trade receivables | (44) | (22) | 441 | 22 | 45 |
| Other receivables and debits | (2) | (1) | 22 | 1 | 2 |
| Other long-term receivables and debits | (3) | (2) | 33 | 2 | 4 |
| Credit from banks and others | 6 | 3 | (61) | (3) | (6) |
| Trade and other payables | 27 | 14 | (274) | (14) | (28) |
| Other payables and credits | 10 | 5 | (100) | (5) | (10) |
| Long-term bank loans | 25 | 13 | (252) | (13) | (25) |
| Currency options | 17 | 8 | (6) | (9) | (18) |
| Forward currency transactions | 22 | 10 | (1) | (9) | (18) |
| Embedded derivative | 6 | 3 | 10 | (3) | (6) |
| Total | **53** | **26** | **(80)** | **(25)** | **(49)** |

**£\USD**

| | Increase (decrease) in fair value | Increase (decrease) in fair value | Fair value | Increase (decrease) in fair value | Increase (decrease) in fair value |
|---|---|---|---|---|---|
| | $ millions | $ millions | $ millions | $ millions | $ millions |
| | Rise of 10% | Rise of 5% | | Fall of 5% | Fall of 10% |
| **Instrument Type** | | | | | |
| Short-term deposits and loans | (3) | (1) | 27 | 1 | 3 |
| Trade receivables | (7) | (3) | 68 | 3 | 7 |
| Credit from banks and others | 1 | – | (6) | – | (1) |
| Trade and other payables | 1 | 1 | (12) | (1) | (1) |
| Other payables and credits | 2 | 1 | (16) | (1) | (2) |
| Forward transactions | 4 | 2 | – | (2) | (5) |
| Total | **(2)** | – | **61** | – | **1** |

**EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)**

**Sensitivity analyses in respect of changes in market factors (consolidated) (Cont.)**

Sensitivity to changes in exchange rates: (Cont.)

**Chinese Yuan\USD**

| | Increase (decrease) in fair value | Increase (decrease) in fair value | Fair value | Increase (decrease) in fair value | Increase (decrease) in fair value |
|---|---|---|---|---|---|
| | $ millions | $ millions | $ millions | $ millions | $ millions |
| | Rise of 10% | Rise of 5% | | Fall of 5% | Fall of 10% |
| **Instrument Type** | | | | | |
| Cash and cash equivalents | (2) | (1) | 20 | 1 | 2 |
| Trade receivables | (2) | (1) | 19 | 1 | 2 |
| Trade payables | 1 | 1 | (12) | (1) | (1) |
| Forward transactions | (16) | (9) | 5 | 10 | 20 |
| Total | **(19)** | **(10)** | **32** | **11** | **23** |

**Suli\USD**

| | Increase (decrease) in fair value | Increase (decrease) in fair value | Fair value | Increase (decrease) in fair value | Increase (decrease) in fair value |
|---|---|---|---|---|---|
| | $ millions | $ millions | $ millions | $ millions | $ millions |
| | Rise of 10% | Rise of 5% | | Fall of 5% | Fall of 10% |
| **Instrument Type** | | | | | |
| Cash and cash equivalents | (2) | (1) | 19 | 1 | 2 |
| Trade receivables | (4) | (2) | 36 | 2 | 4 |
| Trade and other payables | 1 | 1 | (11) | (1) | (1) |
| Total | **(5)** | **(2)** | **44** | **2** | **5** |

**Canadian dollar**

| | Increase (decrease) in fair value | Increase (decrease) in fair value | Fair value | Increase (decrease) in fair value | Increase (decrease) in fair value |
|---|---|---|---|---|---|
| | $ millions | $ millions | $ millions | $ millions | $ millions |
| | Rise of 10% | Rise of 5% | | Fall of 5% | Fall of 10% |
| **Instrument Type** | | | | | |
| Trade receivables | (2) | (1) | 21 | 1 | 2 |
| Trade and other payables | 2 | 1 | (17) | (1) | (2) |
| Total | = | = | **3** | = | = |

**EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)**

**Sensitivity analyses in respect of changes in market factors (consolidated) (Cont.)**

Sensitivity to changes in exchange rates: (Cont.)

**Various currencies**

| | Increase (decrease) in fair value | Increase (decrease) in fair value | Fair value | Increase (decrease) in fair value | Increase (decrease) in fair value |
|---|---|---|---|---|---|
| | $ millions | $ millions | $ millions | $ millions | $ millions |
| | Rise of 10% | Rise of 5% | | Fall of 5% | Fall of 10% |
| **Instrument Type** | | | | | |
| British pound / euro – forward | (1) | – | – | 1 | 1 |
| Shekel / yen – forward transactions | 8 | 4 | 1 | (4) | (8) |
| British pound / euro – currency options | (2) | (1) | (1) | 1 | 1 |
| Brazilian real / dollar – net exposure | (1) | – | 7 | – | 1 |
| Yen / dollar – net exposure | (2) | (1) | 25 | 1 | 1 |
| Bolivian peso / dollar – net exposure | 1 | – | (7) | – | (1) |
| Dominican peso / dollar – net exposure | – | – | 3 | – | – |

**Sensitivity to other changes**

**Hedging marine shipping and energy**

| | Increase (decrease) in fair value | Increase (decrease) in fair value | Fair value | Increase (decrease) in fair value | Increase (decrease) in fair value |
|---|---|---|---|---|---|
| | $ millions | $ millions | $ millions | $ millions | $ millions |
| | Rise of 10% | Rise of 5% | | Fall of 5% | Fall of 10% |
| **Instrument Type** | | | | | |
| Hedging transactions on marine shipping and energy prices | **4** | **2** | **(17)** | **(2)** | **(4)** |

**EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)**

**Sensitivity analyses in respect of changes in market factors (consolidated) (Cont.)**

**Sensitivity to other changes (Cont.)**

**Sensitivity to changes in fuel prices**

| | Increase (decrease) in fair value | Increase (decrease) in fair value | Fair value | Increase (decrease) in fair value | Increase (decrease) in fair value |
|---|---|---|---|---|---|
| | $ millions | $ millions | $ millions | $ millions | $ millions |
| | Rise of 50% | Rise of 20% | | Fall of 20% | Fall of 50% |
| **Instrument Type** | | | | | |
| Call option | 8 | 2 | 1 | (1) | (1) |
| SWAP transactions | 68 | 27 | 1 | (27) | (68) |
| Total | **76** | **29** | **2** | **(28)** | **(69)** |

**UPDATE REGARDING DESCRIPTION OF THE CORPORATION'S BUSINESS**

Set forth below are significant updates and/or changes in the Corporation's business that occurred from the publication date of the of the Corporation's Periodic Report for 2010 on March 29, 2011 and up to the publication date of this report[8]:

1. **To Section 1 of Paragraph A of the Periodic Report – Activities of the Entity and Description of its Business Developments**

   Regarding the clarification provided by the Corporation in connection with the non-application of sanctions imposed by the U.S. government, on the Corporation and on subsidiaries and investee companies of the Corporation – see the Immediate Report dated May 31, 2011, reference no. 2011-01-1693338.

   Commencing from the period of the report, the Group's power station activities, which are incorporated under I.C. Power Ltd., and which were included in the past as part of the Group's other activities, meet the quantitative criteria for presentation as a separate reportable segment, in accordance with IFRS 8. Accordingly, commencing with the period of the report, an additional activity sector is presented including the activities of the power stations – the I.C. Power segment. Therefore, Sections 2.4.2 and 11.2 of the Annual Report, which describe the activities of I.C. Power, are to be read as relating to this activity segment.

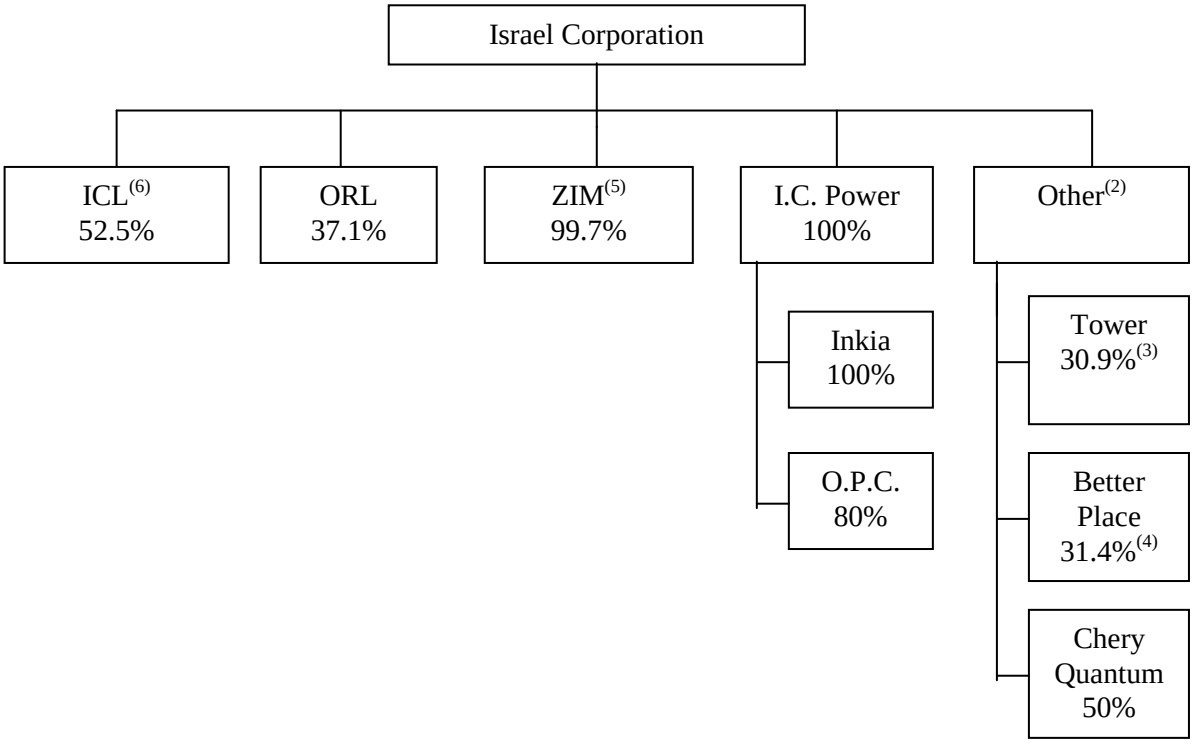
   In the period of the report, there were no significant changes in the activities of I.C. Power and there was no change in the relative proportion of I.C. Power vis-à-vis the Corporation's other investments, as detailed in Section 1.7 of the Annual Report.

[8] Update of the Corporation's business is prepared in accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 1970, and includes significant changes or new developments in the Corporation's business that occurred from the publication date of the Corporation's Periodic Report for 2010 and up to the publication date of this report. Unless it is expressly determined otherwise or where the context of the matters requires otherwise, all the terms and expressions used in this report shall have the meaning existing for them in the Corporation's Periodic Report for 2010, which was published on March 30, 2011. Every reference to an Immediate Report includes as part of this document all the information included in the Immediate Report as stated.

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

**1. To Section 1 of Paragraph A of the Periodic Report – Activities of the Entity and Description of its Business Developments (Cont.)**

Set forth below is a an update to the schematic diagram appearing in Section 1.6 of the Annual Report outlining the Corporation's main and significant holdings and the rate of holdings in the significant investee companies through which the Corporation operates in each activity sector – accurate as at the date of the report (in some cases, the rates of holdings indicated alongside the investee companies including direct and/or indirect (i.e., the chain) of holdings):[1]




(1) The rates of holdings presented in the table are accurate as at the date of the report (in rounded rates) and without taking into account possible dilutions and/or additional rights of the Corporation in the investee companies, unless stated otherwise.

(2) That presented above does not include all the Corporation's holdings.

(3) The annual rate of holdings in Tower is on the assumption that all the capital notes issued by Tower to the Corporation and to banks will be converted.

(4) Without relating to the types of securities of Better Place, including excess rights existing to holders of preferred shares issued by Better Place – for details regarding the types of securities issued by Better Place, the rights provided to each of these classes – see Section 11.4.4 to the Annual Report.

(5) For details and additional information regarding the convertible capital notes given to third parties in the framework of the rehabilitation plan, as well as regarding completion of the Corporation's investment in ZIM – see Sections 9.17 and 16.3 to the Annual Report.

(6) The Corporation's holdings in ICL are direct and indirect.

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

**2. To Section 3 of Paragraph A of the Periodic Report – Investment in the Corporation's Capital and Transactions in its Shares**

2.1 See detail with respect to Regulation 24 of the Fourth Paragraph (Section 10 below).

**3. To Section 6 of Paragraph A of the Periodic Report – Information regarding the Corporation's areas of activity**

3.1 For consolidated financial data of the Corporation, broken down into activity areas, in millions of dollars, for the years 2010, 2009 and 2008 – see Note 34 to the Corporation's annual financial statements as at December 31, 2010.

3.2 Set forth below is consolidated financial data of the Corporation, broken down into activity areas:

**For 2010**

| | ICL | ORL | ZIM | I.C. Power | Other activities | Eliminations and unallocated | Total consolidated |
|---|---|---|---|---|---|---|---|
| | In Millions of U.S. Dollars | | | | | | |
| Information regarding profit and loss: | | | | | | | |
| **Revenues** | | | | | | | |
| Revenues from outsiders | 5,692 | 6,792 | 3,694 | 421 | 297 | (6,792) | 10,104 |
| Inter-segment revenues | – | – | 23 | – | – | (23) | – |
| **Total revenues** | **5,692** | **6,792** | **3,717** | **421** | **297** | **(6,815)** | **10,104** |
| **Costs** | | | | | | | |
| Other costs: | | | | | | | |
| Fixed costs | 2,133 | 362 | 1,729 | 184 | 27 | (362) | 4,073 |
| Variable costs | 2,189 | 6,347 | 1,890 | 205 | 69 | (6,329) | 4,371 |
| Costs constituting revenues of another sector in the entity | 23 | – | – | – | – | (23) | – |
| **Total costs** | **4,345** | **6,709** | **3,619** | **389** | **96** | **(6,714)** | **8,444** |
| Operating income allocated to holders of rights conferring control | 707 | 31 | 98 | 32 | 201 | (49) | 1,020 |
| Operating income allocated to holders of rights not conferring control | 640 | 52 | – | – | – | (52) | 640 |
| **Total operating income** | **1,347** | **83** | **98** | **32** | **201** | **(101)** | **1,660** |
| Rate of operating income | Not Capable of Measurement | | | | | | |
| Total assets at December 31, 2010 | **6,360** | **4,357** | **4,061** | **1,034** | **1,101** | **(4,240)** | **12,673** |
| Interest of the holders of rights not conferring control in revenues from the activity area from outsiders | **2,704** | **4,272** | **11** | **–** | **–** | **–** | **6,987** |

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

**3. To Section 6 of Paragraph A of the Periodic Report – Information regarding the Corporation's activity areas (Cont.)**

2.2 Set forth below is consolidated financial data of the Corporation, broken down into activity areas: (Cont.)

**For 2009**

| | ICL | ORL | ZIM | I.C. Power | Other activities | Eliminations and unallocated | Total consolidated |
|---|---|---|---|---|---|---|---|
| | In Millions of U.S. Dollars | | | | | | |
| Information regarding profit and loss: | | | | | | | |
| **Revenues** | | | | | | | |
| Revenues from outsiders | 4,550 | 5,141 | 2,436 | 327 | 44 | – | 12,498 |
| Inter-segment revenues | 4 | 1 | 13 | – | – | (18) | – |
| **Total revenues** | **4,554** | **5,142** | **2,449** | **327** | **44** | **(18)** | **12,498** |
| **Costs** | | | | | | | |
| Other costs: | | | | | | | |
| Fixed costs | 1,827 | 277 | 1,565 | 142 | 7 | – | 3,818 |
| Variable costs | 1,700 | 4,726 | 1,556 | 181 | 67 | – | 8,230 |
| Costs constituting revenues of another sector in the entity | 11 | 4 | 3 | – | – | (18) | – |
| **Total costs** | **3,538** | **5,007** | **3,124** | **323** | **74** | **(18)** | **12,048** |
| Operating income allocated to holders of rights conferring control | 541 | 61 | (672) | 4 | (30) | – | (96) |
| Operating income allocated to holders of rights not conferring control | 475 | 74 | (3) | – | – | – | 546 |
| **Total operating income (loss)** | **1,016** | **135** | **(675)** | **4** | **(30)** | **–** | **450** |
| Rate of operating income | Not Capable of Measurement | | | | | | |
| Total assets at December 31, 2010 | **5,879** | **3,871** | **3,216** | **1,149** | **833** | **(4,085)** | **10,863** |
| Interest of the holders of rights not conferring control in revenues from the activity area from outsiders | **2,129** | **2,823** | **10** | **–** | **–** | **–** | **4,962** |

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

**2. To Section 6 of Paragraph A of the Periodic Report – Information regarding the Corporation's activity areas (Cont.)**

2.2 Set forth below is consolidated financial data of the Corporation, broken down into activity areas: (Cont.)

**For 2008**

| | ICL | ORL | ZIM | I.C. Power | Other activities | Eliminations and unallocated | Total consolidated |
|---|---|---|---|---|---|---|---|
| | In Millions of U.S. Dollars | | | | | | |
| Information regarding profit and loss: | | | | | | | |
| **Revenues** | | | | | | | |
| Revenues from outsiders | 6,899 | 8,257 | 4,302 | 290 | 54 | – | 19,802 |
| Inter-segment revenues | 5 | – | 24 | – | – | (29) | – |
| **Total revenues** | **6,904** | **8,257** | **4,326** | **290** | **54** | **(29)** | **19,802** |
| **Costs** | | | | | | | |
| Other costs: | | | | | | | |
| Fixed costs | 2,105 | 8,100 | 2,470 | 98 | 15 | – | 12,788 |
| Variable costs | 2,440 | 309 | 2,101 | 208 | 86 | – | 5,144 |
| Costs constituting revenues of another sector in the entity | 24 | – | 5 | – | – | (29) | – |
| **Total costs** | **4,569** | **8,409** | **4,576** | **306** | **101** | **(29)** | **17,932** |
| Operating income allocated to holders of rights conferring control | 1,221 | (69) | (248) | (16) | (47) | – | 841 |
| Operating income allocated to holders of rights not conferring control | 1,114 | (83) | (2) | – | – | – | 1,029 |
| **Total operating income (loss)** | **2,335** | **(152)** | **(250)** | **(16)** | **(47)** | **–** | **1,870** |
| Rate of operating income | Not Capable of Measurement | | | | | | |
| Total assets at December 31, 2010 | **5,738** | **2,405** | **3,340** | **988** | **1,609** | **–** | **14,080** |
| Interest of the holders of rights not conferring control in revenues from the activity area from outsiders | **3,292** | **4,534** | **38** | **–** | **–** | **–** | **7,864** |

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

**3. To Section 8 of Paragraph A of the Periodic Report – Israel Chemicals Ltd. (hereinafter – "ICL")**

3.1 On April 12, 2011, the Government of the United Kingdom approved a grant of £15 million to Cleveland Potash Ltd. (hereinafter – "CPL"), a U.K. company in ICL's fertilizers segment, for purposes of encouraging the mining and processing of polyhalite, a mineral used as a fertilizer for organic farming and that is found under the potash layer in CPL's mine. See the Immediate Report published by the company on April 12, 2011, Reference No. 2011-01-118887.

3.2 On April 13, 2011, the Board of Directors of ICL, as part of the efficiency plan of Iberpotash S.A., a Spanish subsidiary in ICL's fertilizers segment, approved consolidation of the company's activities from two sites into one site. See the Immediate Report published by the company on April 13, 2011, Reference No. 2011-01-12145.

3.3 On April 14, 2011, the Supreme Court issued a conditional order instructing the State to adopt one of the permanent solutions for protecting the Dead Sea within three months of the issuance date of the order. On May 23, 2011, the Minister of Tourism and the Minister of Environmental Protection notified that they see the solution to the salt precipitation problem as the permanent solution and that they intend to recommend this solution to the Government. For additional details – see Section 17.4.8.A of the Report on the Corporation's Business for 2010.

3.4 Further to that stated in Paragraph 4.1.17 of the Annual Report for 2010 and the Prime Minister's notification whereby the preferred permanent solution for the level of the Dead Sea is harvesting the salt, and the Prime Minister's instruction of parties in the Ministry of Finance to examine alternatives for financing the harvesting, ICL notified that talks are being held between its representatives and the aforesaid parties with respect to all the matters involved with implementation of the harvesting solution, including the manner of allocation of the financing.

3.5 On July 7, ICL signed agreements with a number of customers in China for supply of potash, in the aggregate amount of 500 thousand tons, during the second half of 2011, at a price reflecting an increase of about $70 per ton of potash, compared with the sale prices to China that prevailed in the first half of 2011. See the Immediate Report published by the company on July 7, 2011, Reference No. 2011-01-05776.

3.6 In August 2011, ICL Fertilizers notified that it signed agreements with customers in India for sale of potash for a period of eight months (August 2011 through March 2012), whereby ICL Fertilizers will supply one million tons of potash at an average price of $490 per ton. ICL has an option to supply an additional 125 thousand tons on the same terms.

3.7 During the second quarter ICL Fertilizers completed the dynamic compression work on the dike surrounding its evaporation pond at the Dead Sea – see Report of the Board of Directors, Israel Chemicals Ltd. paragraph, Other Developments in the Period of the Report and Thereafter, Section 9.

3.8 Subsequent to the date of the report, a subsidiary of ICL, Dead Sea Bromine Ltd., received a draft of "Additional Conditions for Engaging in the Bromine Business". See Report of the Board of Directors, Israel Chemicals Ltd. paragraph, Other Developments in the Period of the Report and Thereafter, Section 10.

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

**3. To Section 8 of Paragraph A of the Periodic Report – Israel Chemicals Ltd. (hereinafter – "ICL") (Cont.)**

3.9 Further to Section 8.5.15(C1) of the Description of the Corporation's Business for 2010 at the initiation of the Ramat Hovav Council and in agreement with the Environmental Ministry, the outline of the evaporation ponds was changed such that some of them will be established on the basis of the existing ponds. ICL Industrial Products will commence construction of the evaporation ponds in the near future in accordance with the outline and timetables to be agreed to by all the parties involved.

3.10 Subsequent to the date of the report, in July 2011, Bromine Compounds in Ramat Hovav received a draft of the business license conditions in connection with the matter of air quality. The plant is presently negotiating with the authorities to formulate the final conditions of the draft regulations. For additional details – see Section 8.5.15(C4) of the Description of the Corporation's Business for 2010.

**4. To Section 9 of Paragraph A of the Periodic Report – ZIM Integrated Shipping Services Ltd. ("ZIM")**

4.1 Regarding exercise of an option by ZIM in connection with extension of a ship lease for an additional two years from entities related to the company's controlling shareholder – see the Immediate Report published by the company on March 30, 2011, Reference No. 2011-01-098892.

4.2 Regarding exercise of an option by ZIM in connection with extension of a ship lease for an additional two years from entities related to the company's controlling shareholder – see the Immediate Report published by the company on May 26, 2011, Reference No. 2011-01-162231.

4.3 Regarding update of ZIM's cash flows and updated agreements with the financing banks – see the Report of the Board of Directors, Section on ZIM Integrated Shipping Services Ltd., Other Developments during the Period of the Report and Thereafter, Sections 8 and 9.

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

**5. To Section 11 of Paragraph A of the Periodic Report – Additional investments not rising to the level of an activities area**

5.1 As stated in Section 1 above, commencing from the period of the report I.C. Power is presented as a separate activity segment. Therefore, Section 11.2 of the Report on the Corporation's Business for 2010, which describes the activities of I.C. Power, is to be read as relating to this activity segment.

5.2 Regarding completion of a fundraising effort by means of issuance of debentures by Inkia – see the Immediate Report published by the company on March 30, 2011, Reference No. 2011-01-098862.

5.3 In March 2011, a subsidiary of I.C. Power in Peru won a tender published for supply of electricity from new hydro-electric power plants in Peru. Winning of the tender for sale of electricity constitutes a part of the preparations for construction of the hydro-electric plant and raising of the financing for its construction. For additional details – see Report of the Board of Directors, I.C. Power Ltd. paragraph, Other Developments in the Period of the Report and Thereafter, Section 3.

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

**5. To Section 11 of Paragraph A of the Periodic Report – Additional investments not rising to the level of an activities area (Cont.)**

5.4 I.C. Power is taking action in contemplation of construction of a hydro-electric power plant in Peru, and in this regard it is carrying on negotiations with construction contractors and financing parties in connection with a financial close for construction of the project.

5.5 Regarding receipt of an extension, for no consideration, for exercise of an extension of an option to acquire natural gas by O.P.C. Rotem Ltd. (hereinafter – "OPC") – see the Immediate Report published by the company on June 23, 2011, Reference No. 2011-01-191232.

5.6 O.P.C., wherein I.C. Power holds 80% of the shares, is preparing to sign an agreement with Oil Refineries Ltd. (hereinafter – "ORL"), wherein Israel Corporation holds 37.1% of the shares, whereby ORL will purchase electricity from O.P.C. during a period of ten years, on the conditions determined between the parties, including a price that reflects a discount determined between the parties, with respect to the manufacturing component in supervised electricity price that is determined by the Authority for Public Services.

5.7 Further to that stated in Section 11.2.2C, Section B of the Annual Report, as at the date of the report, OPC signed binding agreements for sale of electricity in the overall scope of about 300 megawatts, in addition to the agreement being formulated with ORL (as detailed in Section 5.4 above) – see Report of the Board of Directors, I.C. Power Ltd. paragraph, Other Developments in the Period of the Report and Thereafter, Section 4.

**6. To Section 11.3 of Paragraph A of the Periodic Report – Chery Quantum**

6.1 For details regarding approval of the Chinese Authority for Development and Reforms (NDRC) – see Note 5F to the financial statements.

**7. To Section 11.4 of Paragraph A of the Periodic Report – Better Place**

7.1 Further to that stated in Section 11.4.11 of the Description of the Corporation's Business for 2010, Better Place is making efforts to raise capital from new and existing investors. There is no certainty that Better Place will succeed in raising the capital as stated above.

**8. To Section 12 of Paragraph A of the Periodic Report – Human Resources**

8.1 On March 30, 2011, Mr. Tzahi Goshen was appointed as the Company's Controller in place of Ms. Haviva Shefet.

8.2 On April 14, 2011, the General Meeting of the Corporation's shareholders approved payment of a bonus to the Chairman of the Corporation's Board of Directors in respect of 2010. For additional details – see the Immediate Report published by the Corporation on March 30, 2011, Reference No. 2011-01-098931.

**9. To Section 22 of Paragraph D of the Periodic Report – Transactions with Controlling Shareholder**

9.1 On March 30, 2011, the Corporation's Audit Committee and the Board of Directors approved the decision of ZIM's Audit Committee and the Board of Directors in connection with exercise of an option to extend a ship lease – see Section 4 above.

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

**9. To Section 22 of Paragraph D of the Periodic Report – Transactions with Controlling Shareholder (Cont.)**

9.2 On May 26, 2011, the Audit Committee of the Corporation's Board of Directors approved the decision of the Audit Committee of the Board of Directors of ZIM in connection with exercise of a ship lease option. For details – see Section 4 above.

On August 10, 2011, the Corporation's Audit Committee approved and on August 14, 2011, the Corporation's Board of Directors approved an undertaking of ZIM and the companies held jointly (50/50) by ZIM and Ofer Shipping Ltd. (a company related to the Corporation's controlling shareholders) in agreements with the financing banks whereby the financial covenants in the financing agreements with the banks were updated as stated, similar to update of the financial covenants and financing agreements with the banks that are the secured creditors. For additional details – see Section 4 above.

**10. To Section 24 of Paragraph D of the Periodic Report – Holdings of Interested Parties and Senior Officers**

10.1 See Immediate Reports published by the Corporation, including in connection with:

- A transaction for lending shares of an investee company by Bank Leumi – see Immediate Reports dated May 8, 2011 (Reference No. 2011-01-143292), May 29, 2011 (Reference No. 2011-01-164502) and August 11, 2011 (Reference No. 2011-01-238743).

- A transaction for lending shares of an investee company by Ofer Holdings Group Ltd. – see Immediate Report dated July 20, 2011 (Reference No. 2011-01-218556).

**DISCLOSURE REGARDING THE APPROVAL PROCESS OF THE CORPORATION'S FINANCIAL STATEMENTS**

**1. Finance and Balance Sheet Committee (committee for examination of the financial statements) of the Corporation**

The Corporation's Board of Directors is the organ responsible for the overall control over the Corporation and for approval of its financial statements.

The members of the Board of Directors are: Amir Elstein (Chairman of the Board), Idan Ofer, Udi Angel, Amnon Lion, Ron Moshkovitz, Aviad Kaufman, Yoav Dufelt, Zahavit Cohen, Ofer Termachi (external director), Prof. Gideon Langholtz (external director), Zev Nehari and Eitan Raf.

The committee for examination of the financial statements (the Finance and Balance Sheet Committee) is a separate committee that does not also serve as the Corporation's Audit Committee.

**DISCLOSURE REGARDING THE APPROVAL PROCESS OF THE CORPORATION'S FINANCIAL STATEMENTS (Cont.)**

**2. Members of the Committee**

The Committee has 5 members, as follows:

**Ofer Termachi –** who is the Chairman of the Committee (outside director); and who has accounting and financial expertise.

For details regarding his qualifications, education, experience and knowledge on the basis of which the Corporation viewed him as having accounting and financial expertise – see the detail included with respect to Regulation 26 to the Fourth Part of the Annual Report (the Additional Details section).

**Gideon Langholtz –** who is an outside director; and does not have accounting and financial expertise.

For details regarding his qualifications, education, experience and knowledge on the basis of which the Corporation viewed him as having the ability to read and understand financial statements – see the detail included in connection with Regulation 26 of the Fourth Part of the Annual Report (the Additional Details section).

**Zev Nehari –** who is not an outside or independent director; and has accounting and financial expertise.

For details regarding his qualifications, education, experience and knowledge on the basis of which the Corporation viewed him as having accounting and financial expertise – see the detail included with respect to Regulation 26 to the Fourth Part of the Annual Report (the Additional Details section).

**Aviad Kaufman –** who is not an outside or independent director; and has accounting and financial expertise.

For details regarding his qualifications, education, experience and knowledge on the basis of which the Corporation viewed him as having accounting and financial expertise – see the detail included with respect to Regulation 26 to the Fourth Part of the Annual Report (the Additional Details section).

**Zahavit Cohen –** who is an independent director; and has accounting and financial expertise.

For details regarding her qualifications, education, experience and knowledge on the basis of which the Corporation viewed her as having accounting and financial expertise – see the detail included with respect to Regulation 26 to the Fourth Part of the Annual Report (the Additional Details section)..

All the members of the Committee provided a declaration in accordance with the Companies Ordinance (Instructions and Conditions regarding the Approval Process of the Financial Statements), 2010, as required at the time of their appointments.

**3. Approval process of the financial statements**

A. Approval of the financial report for the second quarter of 2011 involved two meetings, as detailed below: 1) a meeting of the Finance and Balance Sheet Committee, prior to the meeting of the Board of Directors, for an in-principle and comprehensive discussion of the report's significant issues and as well as a discussion to formulate its recommendations to the Board of Directors for approval of the statements; and 2) a meeting of the Board of Directors for discussion of the recommendations of the Finance and Balance Sheet Committee for discussion of the financial statements and approval thereof.

**DISCLOSURE REGARDING THE APPROVAL PROCESS OF THE CORPORATION'S FINANCIAL STATEMENTS (Cont.)**

**3. Approval process of the financial statements (Cont.)**

B. The Finance and Balance Sheet Committee discussed and formulated its recommendations to the Corporation's Board of Directors at its meeting on August 21, 2011. All the members of the Committee participated in the Committee's discussions, except for Aviad Kaufman.

C. Set forth below is the name and position of every officer, interested party, family member of any of these parties and/or a party on his behalf that was present at the Finance and Balance Sheet Committee's meeting: Mr. Nir Gilad, CEO; Mr. Avisar Paz, CFO; Ms. Maya Alscheich-Kaplan, In-House Counsel and Corporation Secretary; Mr. Eran Sarig, Deputy CEO of Business and Strategic Development; Mr. Barak Cohen, Director of Business Development and Investor Relations; and Mr. Shmuel Rosenblum, the Corporation's Internal Auditor.

D. The Corporation's Board of Directors believes that the recommendations of the Finance and Balance Sheet Committee were provided a reasonable time in advance (which in the Board of Directors' estimation is up to 2 business days prior to the date of the meeting of the Board of Directors) prior to the meeting of the Board of Directors, taking into account the scope of the recommendations and their complexity.

E. Set forth below is detail of the steps taken by the Committee for purposes of formulation of its recommendation to the Board of Directors:

The Finance and Balance Sheet Committee examined the financial statements, by means of a detailed presentation by the Corporation's CEO and CFO, including: (a) estimates and assessments made regarding the financial statements; (b) the internal controls relating to the financial report for the second quarter of 2011; (c) the completeness and appropriateness of the disclosure in the financial statements; and (d) the accounting policies adopted and the accounting treatment applied regarding the entity's significant matters and the division into the Corporation's segments. In addition, the Committee received an update from the Corporation's management that no event or matter occurred that is sufficient to change the evaluation of the effectiveness of internal control as provided and presented in the latest quarterly report regarding internal control. In addition, reference of the auditing CPAs is provided to the matters presented. As a result of this meeting and on the basis of the discussions held there, the Finance and Balance Sheet Committee's recommendations regarding approval of the financial statements were provided to the members of the Board of Directors.

F. After the Board of Directors has received the Finance and Balance Sheet Committee's recommendations and a discussion was held of its recommendations, and after the Board of Directors was satisfied that the statements properly reflect the Corporation's financial position and results of operations, the Corporation's Board of Directors decided to approve the Corporation's financial statements as at June 30, 2011, at its meeting held on August 24, 2011.

The members of the Board of Directors that participated in the meeting where the Corporation's financial statements as at June 30, 2011 were approved are: Amir Elstein (Chairman of the Board), Idan Ofer, Udi Angel, Prof. Gideon Langholtz, Yoav Dufelt, Ofer Termachi, Zahavit Cohen, Amnon Lion, Ron Moshkovitz, Zev Nehari, Aviad Kaufman and Eitan Raf.

**EVENTS OCCURRING IN THE CORPORATION DURING THE PERIOD OF THE REPORT AND THEREAFTER**

1. Appointments in the Corporation.

   A. In March 2011, Mr. Yaakov Amidror ceased serving as a Corporation director.

   B. In March 2011, Ms. Haviva Shefet ceased serving as the Corporation's controller.

   C. In March 2011, Mr. Tzahi Goshen was appointed as the Corporation's controller.

2. On March 29, 2011, the Corporation's Board of Directors decided to distribute a dividend in the amount of $70 million that was paid on May 1, 2011.

3. In January 2011, Maalot confirmed a rating for the Corporation's debentures (Series 6, 7, 8 and 9) of ilA+/stable.

4. Regarding requests for certification of filing a claims as derivative actions – see Note 6C to the financial statements.

5. Regarding a claim against the Corporation and opposing proceedings – see Note 6D to the financial statements.

6. In March and June 2011, the Corporation reported with respect to extension of the option of the Group companies to purchase gas. See Note 6G to the financial statements.

**ADDITIONAL INFORMATION INCLUDED IN THE AUDITORS' REVIEW REPORT**

Set forth below is a quote from the Auditors' Review Report:

Without qualifying our conclusion as stated above, we direct attention to:

1. That stated in Note 6A regarding claims filed against a subsidiary and an associated company in connection with legal proceedings, supervision of the governing authorities, other contingencies, laws and proposed laws relating to the fuel and gas industries and infrastructure facilities, with respect to which the managements of the subsidiaries, based on opinions of their legal advisors, are unable to assess the amount of the exposure, if any, and accordingly no provision has been included in the financial statements in respect thereof.

2. That stated in Notes 6B and 5D regarding the dependency of an associated company on receipt of services from infrastructure companies and suppliers of natural gas.

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

| | |
|---|---|
| **Amir Elstein** | **Nir Gilad** |
| **Chairman of the Board of Directors** | **CEO** |

August 24, 2011

# Israel Corporation Ltd.

## Condensed Consolidated Interim Financial Statements

## As at June 30, 2011

**(Unaudited)**

**In Millions of U.S. Dollars**

**Somekh Chaikin**
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**Review Report of the Independent Auditors to the Shareholders of Israel Corporation Ltd.**

**Introduction**

We have reviewed the accompanying financial information of Israel Corporation Ltd. and its subsidiaries including the condensed consolidated interim statement of financial position as at June 30, 2011 and the condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the six-month and three-month periods ended on that date. The Board of Directors and Management are responsible for preparation and presentation of the financial information for these interim periods in accordance with IAS 34 "Financial Reporting for Interim Periods", and are also responsible for preparation of financial information for these interim periods in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on the interim financial information for these interim periods based on our review.

We did not review the condensed financial information for the interim periods of subsidiaries, the assets of which included in the consolidation constitute about 1.5% of the total consolidated assets as at June 30, 2011, and the revenues of which included in the consolidation constitute about 2.7% and about 3.5% of the total consolidated revenues for the six-month and three-month periods ended on that date, respectively. In addition, we did not review the condensed financial information for the interim periods of associated companies, the investment in which totaled about $61 million as at June 30, 2011, and the Group's share in their income was about $8 million and about $5 million, for the six-month and three-month periods ended on that date, respectively. The condensed financial information for the interim periods of those companies was reviewed by other auditors whose review reports thereon were furnished to us and our conclusion, insofar as it relates to amounts included in respect of those companies, is based on the review reports of the other auditors.

**Scope of the Review**

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

**Conclusion**

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

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

Without qualifying our above-mentioned conclusion, we direct attention to:

1. That stated in Note 6A regarding claims filed against a subsidiary and an associated company in connection with legal proceedings, supervision of the governing authorities, other contingencies, laws and proposed laws relating to the fuel and gas industries and infrastructure facilities, with respect to which the managements of the subsidiaries, based on opinions of their legal advisors, are unable to assess the amount of the exposure, if any, and accordingly no provision has been included in the financial statements in respect thereof.

2. That stated in Notes 6B and 5D regarding the dependency of an associated company on receipt of services from infrastructure companies and suppliers of natural gas.

**Somekh Chaikin**
**Certified Public Accountants (Isr.)**

**August 24, 2011**

**Israel Corporation Ltd.**
**Condensed Consolidated Interim Statements of Financial Position**

| | At June 30 | | At December 31 |
|---|---|---|---|
| | 2011 | 2010 | 2010 |
| | (Unaudited) | | (Audited) |
| | In Millions of U.S. Dollars | | |
| **Current Assets** | | | |
| Cash and cash equivalents | **1,555** | 1,034 | 1,477 |
| Securities held for trade | **1** | 1 | 13 |
| Short-term investments, deposits and loans | **453** | 203 | 678 |
| Trade receivables | **1,830** | 1,360 | 1,334 |
| Other receivables and debit balances, including derivative instruments | **495** | *323 | 291 |
| Income taxes receivable | **65** | 74 | 81 |
| Inventories | **1,289** | 1,085 | 1,153 |
| **Total current assets** | **5,688** | 4,080 | 5,027 |
| **Non-Current Assets** | | | |
| Investments in associated companies | **1,334** | 1,383 | 1,349 |
| Investments in other companies | **13** | 44 | 15 |
| Deposits, loans and other debit balances | **283** | 261 | 264 |
| Derivative instruments | **469** | *309 | 421 |
| Excess of assets over liabilities in respect of defined benefit plan | **84** | 62 | 83 |
| Deferred taxes, net | **121** | 118 | 130 |
| Non-current inventory | **53** | 62 | 50 |
| Property, plant and equipment | **6,116** | 5,443 | 5,781 |
| Intangible assets | **1,192** | 887 | 902 |
| **Total non-current assets** | **9,665** | 8,569 | 8,995 |
| **Total assets** | **15,353** | 12,649 | 14,022 |

* Reclassified.

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

**Israel Corporation Ltd.**
**Condensed Consolidated Interim Statements of Financial Position**

| | At June 30 | | At December 31 |
|---|---|---|---|
| | 2011 | 2010 | 2010 |
| | (Unaudited) | | (Audited) |
| | In Millions of U.S. Dollars | | |
| **Current Liabilities** | | | |
| Credit from banks and others | **1,288** | 617 | 848 |
| Trade payables | **1,170** | 844 | 870 |
| Provisions | **101** | *98 | 92 |
| Other payables and credit balances, including derivative instruments | **739** | *728 | 943 |
| Income taxes payable | **90** | 37 | 50 |
| **Total current liabilities** | **3,388** | 2,324 | 2,803 |
| **Non-Current Liabilities** | | | |
| Loans from banks and others | **4,087** | 3,815 | 3,946 |
| Debentures | **2,719** | 2,104 | 2,443 |
| Derivative instruments | **118** | *139 | 102 |
| Provisions | **80** | *62 | 68 |
| Deferred taxes, net | **172** | 180 | 167 |
| Employee benefits | **682** | 621 | 658 |
| **Total non-current liabilities** | **7,858** | 6,921 | 7,384 |
| **Total liabilities** | **11,246** | 9,245 | 10,187 |
| **Equity** | | | |
| Share capital and premium | **285** | 281 | 282 |
| Capital reserves | **147** | 34 | 107 |
| Capital reserve in respect of transactions with controlling shareholder | **113** | 66 | 90 |
| Retained earnings | **1,891** | 1,659 | 1,910 |
| **Total equity attributable to the owners of the Corporation** | **2,436** | 2,040 | 2,389 |
| **Holders of rights not conferring control** | **1,671** | 1,364 | 1,446 |
| **Total equity** | **4,107** | 3,404 | 3,835 |
| **Total liabilities and equity** | **15,353** | 12,649 | 14,022 |

* Reclassified.

| | | |
|---|---|---|
| **Amir Elstein** | **Nir Gilad** | **Avisar Paz** |
| **Chairman of the Board of Directors** | **CEO** | **CFO** |

Approval date of the financial statements: August 24, 2011

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

**Israel Corporation Ltd.**
**Condensed Consolidated Interim Statements of Income**

| | For the | | | | |
|---|---|---|---|---|---|
| | Six Months Ended June 30 | | Three Months Ended June 30 | | Year Ended December 31 |
| | 2011 | 2010 | 2011 | 2010 | 2010 |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| | In Millions of U.S. Dollars | | | | |
| Sales | **5,723** | 4,795 | **3,144** | 2,542 | 9,865 |
| Cost of sales | **4,149** | 3,480 | **2,261** | 1,774 | 7,115 |
| **Gross profit** | **1,574** | 1,315 | **883** | 768 | 2,750 |
| Research and development expenses | **37** | 31 | **20** | 16 | 68 |
| Selling, transportation and marketing expenses | **427** | 382 | **239** | 200 | 762 |
| Administrative and general expenses | **245** | 222 | **130** | 112 | 447 |
| Other expenses | **24** | 21 | **16** | 7 | 34 |
| Other income | **(31)** | (78) | **(19)** | (41) | (221) |
| **Operating income** | **872** | 737 | **497** | 474 | 1,660 |
| Financing expenses | **353** | 133 | **155** | 83 | 513 |
| Financing income | **(101)** | (34) | **(88)** | – | (199) |
| **Financing expenses, net** | **252** | 99 | **67** | 83 | 314 |
| Share in income (losses) of associated companies, net of tax | **(26)** | (10) | **8** | 2 | (39) |
| **Income before taxes on income** | **594** | 628 | **438** | 393 | 1,307 |
| Taxes on income | **193** | 159 | **125** | 92 | 326 |
| **Income for the period** | **401** | 469 | **313** | 301 | 981 |
| **Attributable to:** | | | | | |
| Owners of the Corporation | **50** | 206 | **103** | 157 | 474 |
| Holders of rights not conferring control | **351** | 263 | **210** | 144 | 507 |
| **Income for the period** | **401** | 469 | **313** | 301 | 981 |
| **Income per share attributable to the owners of the Corporation:** | | | | | |
| Basic income per share (in dollars) | **6.64** | 27.33 | **13.55** | 20.75 | 62.33 |
| Diluted income per share (in dollars) | **6.20** | 27.23 | **13.28** | 20.66 | 61.88 |

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

**Israel Corporation Ltd.**
**Condensed Consolidated Interim Statements of Comprehensive Income**

| | For the | | | | |
|---|---|---|---|---|---|
| | Six Months Ended June 30 | | Three Months Ended June 30 | | Year Ended December 31 |
| | 2011 | 2010 | 2011 | 2010 | 2010 |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| | In Millions of U.S. Dollars | | | | |
| **Income for the period** | **401** | 469 | **313** | 301 | 981 |
| **Components of other comprehensive income (loss)** | | | | | |
| Foreign currency translation differences in respect of foreign activities | **71** | (70) | **30** | (40) | 9 |
| Actuarial gains (losses) from defined benefit plans, net | **3** | (48) | **(15)** | (29) | (23) |
| Group's share in other comprehensive income (loss) of associated companies | **(3)** | (1) | **(4)** | (3) | 3 |
| Effective portion of the change in fair value of cash flow hedges | **(7)** | (11) | **(6)** | (7) | (9) |
| Net change in fair value of financial assets available for sale | **(8)** | (25) | **(4)** | (12) | (21) |
| Net change in fair value of cash flow hedges transferred to the statement of income | **1** | 2 | – | 1 | 7 |
| Net change in fair value of financial assets available for sale transferred to the statement of income | **6** | – | – | – | – |
| Taxes in respect of components of other comprehensive income (loss) | **2** | 13 | **5** | 9 | 3 |
| **Other comprehensive income (loss) for the period, net of tax** | **65** | (140) | **6** | (81) | (31) |
| **Comprehensive income for the period** | **466** | 329 | **319** | 220 | 950 |
| **Attributable to:** | | | | | |
| Owners of the Corporation | **86** | 123 | **104** | 108 | 461 |
| Holders of rights not conferring control | **380** | 206 | **215** | 112 | 489 |
| **Comprehensive income for the period** | **466** | 329 | **319** | 220 | 950 |

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

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

| | Attributable to the owners of the Corporation | | | | | | Rights not conferring control | Total capital |
|---|---|---|---|---|---|---|---|---|
| | Share capital and premium | Translation reserve for foreign activities | Capital reserves | Capital reserve for transactions with controlling shareholder | Retained earnings | Total | | |
| | (Unaudited) | | | | | | | |
| | $ millions | | | | | | | |
| **For the six months ended June 30, 2011** | | | | | | | | |
| **Balance at January 1, 2011** | 282 | 65 | 42 | 90 | 1,910 | 2,389 | 1,446 | 3,835 |
| Share-based payments in a subsidiary | – | – | – | – | – | – | 7 | 7 |
| Share-based payments in the Corporation | 3 | – | 5 | – | – | 8 | – | 8 |
| Dividend to holders of rights not conferring control in a subsidiary | – | – | – | – | – | – | (177) | (177) |
| Dividend to equity holders | – | – | – | – | (70) | (70) | – | (70) |
| Rights not conferring control in respect of business combination | – | – | – | – | – | – | 9 | 9 |
| Issuance of shares of a subsidiary to holders of rights not conferring control | – | – | – | – | – | – | 3 | 3 |
| Transactions with holders of rights not conferring control | – | – | – | – | – | – | 3 | 3 |
| Transactions with controlling shareholder | – | – | – | 23 | – | 23 | – | 23 |
| Income for the period | – | – | – | – | 50 | 50 | 351 | 401 |
| Other comprehensive income for the period, net of tax | – | 39 | (4) | – | 1 | 36 | 29 | 65 |
| **Balance at June 30, 2011** | 285 | 104 | 43 | 113 | 1,891 | 2,436 | 1,671 | 4,107 |
| **For the six months ended June 30, 2010** | | | | | | | | |
| **Balance at January 1, 2010** | 281 | 45 | 52 | 46 | 1,387 | 1,811 | 1,514 | 3,325 |
| Share-based payments in a subsidiary | – | – | – | – | – | – | 18 | 18 |
| Share-based payments in the Corporation | – | – | 1 | – | – | 1 | – | 1 |
| Dividend to holders of rights not conferring control in a subsidiary | – | – | – | – | – | – | (394) | (394) |
| Rights not conferring control in respect of a business combination | – | – | – | – | – | – | (1) | (1) |
| Sale of shares of subsidiary to holders of rights not conferring control | – | – | – | – | 85 | 85 | 21 | 106 |
| Transactions with controlling shareholder | – | – | – | 20 | – | 20 | – | 20 |
| Income for the period | – | – | – | – | 206 | 206 | 263 | 469 |
| Other comprehensive loss for the period, net of tax | – | (35) | (29) | – | (19) | (83) | (57) | (140) |
| **Balance at June 30, 2010** | 281 | 10 | 24 | 66 | 1,659 | 2,040 | 1,364 | 3,404 |

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

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

| | Attributable to the owners of the Corporation | | | | | | Rights not conferring control | Total capital |
|---|---|---|---|---|---|---|---|---|
| | Share capital and premium | Translation reserve for foreign activities | Capital reserves | Capital reserve for transactions with controlling shareholder | Retained earnings | Total | | |
| | (Unaudited) | | | | | | | |
| | $ millions | | | | | | | |
| **For the three months ended June 30, 2011** | | | | | | | | |
| **Balance at April 1, 2011** | 285 | 89 | 47 | 102 | 1,794 | 2,317 | 1,535 | 3,852 |
| Share-based payments in a subsidiary | – | – | – | – | – | – | 3 | 3 |
| Share-based payments in the Corporation | – | – | 4 | – | – | 4 | – | 4 |
| Dividend to holders of rights not conferring control in a subsidiary | – | – | – | – | – | – | (94) | (94) |
| Rights not conferring control in respect of business combination | – | – | – | – | – | – | 9 | 9 |
| Issuance of shares of a subsidiary to holders of rights not conferring control | – | – | – | – | – | – | 3 | 3 |
| Transactions with controlling shareholder | – | – | – | 11 | – | 11 | – | 11 |
| Income for the period | – | – | – | – | 103 | 103 | 210 | 313 |
| Other comprehensive income for the period, net of tax | – | 15 | (8) | – | (6) | 1 | 5 | 6 |
| **Balance at June 30, 2011** | 285 | 104 | 43 | 113 | 1,891 | 2,436 | 1,671 | 4,107 |
| **For the three months ended June 30, 2010** | | | | | | | | |
| **Balance at April 1, 2010** | 281 | 31 | 41 | 56 | 1,513 | 1,922 | 1,569 | 3,491 |
| Share-based payments in a subsidiary | – | – | – | – | – | – | 6 | 6 |
| Dividend to holders of rights not conferring control in a subsidiary | – | – | – | – | – | – | (320) | (320) |
| Rights not conferring control in respect of a business combination | – | – | – | – | – | – | (3) | (3) |
| Transactions with controlling shareholder | – | – | – | 10 | – | 10 | – | 10 |
| Income for the period | – | – | – | – | 157 | 157 | 144 | 301 |
| Other comprehensive loss for the period, net of tax | – | (21) | (17) | – | (11) | (49) | (32) | (81) |
| **Balance at June 30, 2010** | 281 | 10 | 24 | 66 | 1,659 | 2,040 | 1,364 | 3,404 |

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

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

| | Attributable to the owners of the Corporation | | | | | | Rights not conferring control | Total capital |
|---|---|---|---|---|---|---|---|---|
| | Share capital and premium | Translation reserve for foreign activities | Capital reserves | Capital reserve for transactions with controlling shareholder | Retained earnings | Total | | |
| | (Audited) | | | | | | | |
| | $ millions | | | | | | | |
| **Balance at January 1, 2010** | **281** | **45** | **52** | **46** | **1,387** | **1,811** | **1,514** | **3,325** |
| Share-based payments in a subsidiary | **–** | **–** | **–** | **–** | **–** | **–** | **32** | **32** |
| Share-based payments in the Corporation | **1** | **–** | **4** | **–** | **–** | **5** | **–** | **5** |
| Dividend to holders of rights not conferring control in subsidiaries | **–** | **–** | **–** | **–** | **–** | **–** | **(561)** | **(561)** |
| Rights not conferring control in respect of business combination | **–** | **–** | **–** | **–** | **–** | **–** | **(1)** | **(1)** |
| Acquisition of shares from holders of rights not conferring control in a subsidiary | **–** | **6** | **–** | **–** | **(23)** | **(17)** | **(52)** | **(69)** |
| Sale of shares of subsidiary to holders of rights not conferring control | **–** | **–** | **–** | **–** | **85** | **85** | **21** | **106** |
| Transactions with holders of rights not conferring control | **–** | **–** | **–** | **–** | **–** | **–** | **4** | **4** |
| Transactions with controlling shareholder | **–** | **–** | **–** | **44** | **–** | **44** | **–** | **44** |
| Income for the year | **–** | **–** | **–** | **–** | **474** | **474** | **507** | **981** |
| Other comprehensive loss for the year, net of tax | **–** | **14** | **(14)** | **–** | **(13)** | **(13)** | **(18)** | **(31)** |
| **Balance at December 31, 2010** | **282** | **65** | **42** | **90** | **1,910** | **2,389** | **1,446** | **3,835** |

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

## Israel Corporation Ltd.
## Condensed Consolidated Interim Statements of Cash Flows

| | For the | | | | |
|---|---|---|---|---|---|
| | Six Months Ended June 30 | | Three Months Ended June 30 | | Year Ended December 31 |
| | 2011 | 2010 | 2011 | 2010 | 2010 |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| | In Millions of U.S. Dollars | | | | |
| **Cash flows from operating activities** | | | | | |
| Income for the period | **401** | 469 | **313** | 301 | 981 |
| Adjustments: | | | | | |
| Depreciation and amortization | **237** | 204 | **125** | 104 | 427 |
| Decline in value of assets | **10** | 10 | **10** | – | 21 |
| Financing expenses, net | **202** | 66 | **42** | 52 | 311 |
| Share in losses (income) of associated companies, net | **26** | 10 | **(8)** | (2) | 39 |
| Capital gains, net | **(27)** | (65) | **(17)** | (36) | (195) |
| Share-based payment transactions | **15** | 16 | **8** | 8 | 37 |
| Gain on sale of activities | **–** | (6) | **–** | – | (6) |
| Loss (gain) on investment in securities available for sale | **3** | – | **(3)** | – | (3) |
| Taxes on income | **193** | 159 | **125** | 92 | 326 |
| | **1,060** | 863 | **595** | 519 | 1,938 |
| Change in inventories | **(29)** | 145 | **(32)** | 58 | 113 |
| Change in trade and other receivables | **(433)** | (227) | **(239)** | (64) | (167) |
| Change in trade and other payables | **181** | 215 | **60** | 98 | 257 |
| Change in uncompleted voyages, net | **(76)** | 4 | **(22)** | 67 | 23 |
| Change in provisions and employee benefits | **18** | (18) | **10** | (16) | 16 |
| | **721** | 982 | **372** | 662 | 2,180 |
| Income taxes paid | **(265)** | (163) | **(64)** | (68) | (256) |
| Dividend received | **14** | 44 | **7** | 41 | 60 |
| **Net cash provided by operating activities** | **470** | 863 | **315** | 635 | 1,984 |
| **Cash flows from investing activities** | | | | | |
| Investment in long-term deposits | **(1)** | (2) | **(1)** | (2) | (14) |
| Proceeds from realization of long-term deposits | **2** | 2 | **2** | 1 | 2 |
| Proceeds from sale of property, plant and equipment | **8** | 31 | **4** | 20 | 73 |
| Short-term deposits and loans, net | **217** | (9) | **66** | 51 | (463) |
| Business combinations less cash acquired | **(452)** | 1 | **(189)** | 1 | (1) |
| Proceeds from sale of activities | **–** | 9 | **–** | – | 9 |
| Investments in associated companies | **–** | (89) | **–** | (65) | (89) |
| Sale of securities held for trade, net | **13** | 2 | **13** | 1 | 10 |
| Acquisition of property, plant and equipment | **(381)** | (377) | **(224)** | (110) | (782) |
| Provision of long-term loans | **–** | (10) | **–** | (1) | (12) |
| Acquisition of intangible assets | **(10)** | (6) | **(5)** | (2) | (18) |
| Subsidiary that became an associated company | **–** | (4) | **–** | – | (1) |
| Interest received | **17** | *28 | **6** | *14 | 40 |
| Collection of long-term loans | **34** | – | **34** | – | – |
| Proceeds from sale of associated company | **–** | – | **–** | – | 152 |
| Receipts (payments) from derivative transactions, net | **(6)** | *(2) | **2** | *(5) | (3) |
| **Net cash used in investing activities** | **(559)** | (426) | **(292)** | (97) | (1,097) |

* Reclassified.

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

**Israel Corporation Ltd.**
**Condensed Consolidated Interim Statements of Cash Flows**

| | For the | | | | |
|---|---|---|---|---|---|
| | Six Months Ended June 30 | | Three Months Ended June 30 | | Year Ended December 31 |
| | 2011 | 2010 | 2011 | 2010 | 2010 |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| | In Millions of U.S. Dollars | | | | |
| **Cash flows from financing activities** | | | | | |
| Dividend paid to holders of rights not conferring control | **(256)** | (344) | **(173)** | (344) | (481) |
| Acquisition of rights not conferring control in subsidiary | **–** | – | **–** | – | (65) |
| Proceeds from issuance of equity to holders of rights not conferring control in subsidiaries | **17** | 10 | **13** | 6 | 63 |
| Proceeds from sale of holdings in subsidiary | **–** | 106 | **–** | – | 106 |
| Receipt of long-term loans and issuance of debentures | **790** | 764 | **491** | 445 | 1,414 |
| Dividend paid to the owners of the Corporation | **(70)** | – | **(70)** | – | – |
| Repayment of long-term loans and debentures | **(407)** | (412) | **(180)** | (298) | (813) |
| Short-term credit from banks and others, net | **249** | (72) | **143** | (50) | (55) |
| Receipts (payments) from derivative transactions used for hedging, net | **1** | *(1) | **2** | *– | (5) |
| Interest paid | **(157)** | *(120) | **(60)** | *(53) | (266) |
| **Net cash provided by (used in) financing activities** | **167** | (69) | **166** | (294) | (102) |
| **Increase in cash and cash equivalents** | **78** | 368 | **189** | 244 | 785 |
| Cash and cash equivalents at beginning of the period | **1,476** | 676 | **1,364** | 790 | 676 |
| Effect of exchange rate fluctuations on balances of cash and cash equivalents | **(1)** | (13) | **–** | (3) | 15 |
| **Cash and cash equivalents at the end of the period** | **1,553** | 1,031 | **1,553** | 1,031 | 1,476 |

* Reclassified.

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

**Israel Corporation Ltd.**
**Notes to the Unaudited Condensed Consolidated Interim Financial Statements**
**At June 30, 2011**

## Note 1 – The Reporting Entity

Israel Corporation Ltd. (hereinafter – "the Corporation") is an Israeli-resident corporation whose shares are listed for trading on the Tel-Aviv Stock Exchange. The Corporation's registered office is located at 23 Aranha St., Tel-Aviv, Israel. The condensed consolidated interim financial statements as at June 30, 2011 include those of the Corporation and its subsidiaries (hereinafter – "the Group") along with the Group's rights in associated companies.

The Group operates through an array of investee companies, mainly, in the chemicals, shipping, energy and power station sectors, and it also has additional investments including in the areas of advanced technology, vehicles, infrastructures for electric-powered vehicles, and "clean" energy. The Corporation's headquarters provides management services, through a wholly owned and controlled subsidiary, and is also actively involved in the strategic planning and business development of the Group companies. In addition, the Group acts to initiate and develop additional business interests.

The Corporation is a public company the shares of which are traded on the Tel-Aviv Stock Exchange.

## Note 2 – Basis of Preparation of the Financial Statements

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

The condensed consolidated interim financial statements were prepared in accordance with IAS 34, "Financial Reporting for Interim Periods" and do not include all of the information required in complete, annual financial statements. These statements should be read together with the financial statements for the year ended December 31, 2010 (hereinafter – "the Annual Financial Statements"). In addition, these financial statements were prepared in accordance with the provisions of Section D of the Securities Regulations (Periodic and Immediate Reports) 1970.

The condensed, consolidated, interim financial statements were approved for publication by the Corporation's Board of Directors on August 24, 2011.

### B. Functional currency and presentation currency

The dollar is the currency representing the main economic environment in which the Corporation operates and, accordingly, the dollar constitutes the Corporation's functional currency. Currencies other than the dollar constitute foreign currency.

### C. Use of estimates and judgment

In preparation of the condensed consolidated interim financial statements in accordance with IFRS, Corporation management is required to use judgment when making estimates, assessments and assumptions that affect implementation of the policies and the amounts of assets, liabilities, income and expenses. It is clarified that the actual results are likely to be different from these estimates.

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

## Note 2 – Basis of Preparation of the Financial Statements (Cont.)

### C. Use of estimates and judgment (Cont.)

The basic estimates and assumptions are reviewed by Corporation Management on a current basis. Changes in accounting estimates are recognized in the period the estimates were changed and in every future period affected.

### D. Reclassification

1. In the statement of financial position as at June 30, 2010, a reclassification was made of current maturities of derivative instruments with a debit balance, in the amount of about $36 million, and derivative instruments with a credit balance, in the amount of about $30 million, which were previously presented as part of non-current assets and non-current liabilities in order to reflect their projected repayment date. In addition, in the statement of financial position as at June 30, 2010, a reclassification was made of provisions, in the amount of about $20 million, from non-current liabilities to current liabilities in order to conform their presentation to presentation of the provisions in Corporation's statement of financial position as at June 30, 2011.

2. In the statements of cash flows for the six months and three months ended June 30, 2010, the amounts of about $24 million and about $9 million, respectively, were reclassified between "cash flows from financing activities" and "cash flows from investing activities" in respect of interest received and receipts (payments) in connection with derivative transactions.

3. Commencing from the second quarter of the year of account, ZIM, which constitutes a reportable segment, classifies the revaluation of derivatives on fuel prices as part of the operating expenses instead of as part of the financing expenses. The impact of the reclassification on the comparative figures is not significant.

## Note 3 – Significant Accounting Policies

The Group's accounting policies in these condensed consolidated interim financial statements are the policies applied in the Annual Financial Statements, except as detailed in Section (1) below.

### (1) First-time application of new standards

Commencing from January 1, 2011, the Group applies the amendment to IAS 34 "Financial Reporting for Interim Periods, Significant Transactions and Events" (hereinafter – "the Amendment"), which was published as part of the Improvements Project for 2010. Pursuant to the Amendment, the list of events and transactions requiring disclosure in financial statements for interim periods was expanded. In addition, the materiality threshold in the minimum disclosure requirements that existed prior to the Amendment was eliminated. The disclosures required under the Amendment were reflected, to the extent relevant, in these condensed interim financial statements.

**Note 3 – Significant Accounting Policies (Cont.)**

**(2) New standards and interpretations not yet adopted**

**A. New system of accounting standards regarding consolidation of the financial statements, joint arrangements and disclosures regarding rights in other entities**

The new system of standards effectively replaces the existing standards regarding the matter of consolidation of financial statements and joint ventures, and also includes a number of changes in connection with associated companies.

Set forth below is detail of the new standards published:

**1) International Financial Reporting Standard IFRS 10 "Consolidated Financial Statements" (hereinafter – "the Standard")**

The Standard replaces the directives of IAS 27 "Consolidated and Separate-Company Financial Statements" and the directives of SIC 12 "Consolidation – Special Purpose Entities" regarding consolidation of financial statements, such that the directives of IAS 27 will continue to be effective only regarding separate-company financial statements.

The Standard presents a new control model for purposes of determining if an investor controls an investee and, therefore, is required to consolidate it. The model will be applied with respect to all the investee entities. Pursuant to the model, an investor controls an investee when he/it is exposed or entitled to variable yields deriving from his/its involvement in the investee, and he/it is able to influence these yields through use of his/its power in the said investee and there is a connection between power and results.

Set forth below are the main changes vis-à-vis the existing consolidation guidelines:

– The Standard presents a model that requires use of judgment and analysis of all the relevant facts and circumstances for purposes of determining who has control and is required to consolidate the investee.

– The Standard presents a uniform control model to be applied in connection with all the investee entities – both investee entities presently covered by IAS 27, as well as investee entities now governed by SIC 12.

– "De facto" circumstances are to be taken into account for purposes of evaluating control, such that where effective control over an investee exists, consolidation of statements will be required.

– In evaluating the existence of control, account is to be taken of all significant potential voting rights. Reference is to be made to the structure, reasons for their existence and the terms of potential voting rights.

– The Standard includes application directives and a list of indicators for purposes of the examination as to whether the decision-maker acts as a manager or agent when determining whether an investor controls an investee.

**Note 3 – Significant Accounting Policies (Cont.)**

**(2) New standards and interpretations not yet adopted (Cont.)**

**A. New system of accounting standards regarding consolidation of the financial statements, joint arrangements and disclosures regarding rights in other entities (Cont.)**

**1) International Financial Reporting Standard IFRS 10 "Consolidated Financial Statements" (hereinafter – "the Standard") (Cont.)**

– The Standard provides directives for cases wherein an investor will examine control in connection with part of an entity (silos) such that the examination will be made with respect to specific assets.

– The Standard includes a definition of protective rights, whereas no reference was made to this in the present standard.

– Exposure to the risks and rewards of an investee does not in and of itself determine that the investor controls the investee but, rather, is one of the factors to be analyzed when examining the existence of control.

The Standard is to be applied retroactively to annual reporting periods commencing on or after January 1, 2013 (except for certain relief). Early application is permissible, subject to provision of disclosure and subject to early adoption of the entire new set of standards, that is, the two additional standards published concurrently – IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures regarding Rights in Other Entities".

**2) International Financial Reporting Standard IFRS 11 "Joint Arrangements" (hereinafter – "the Standard")**

The Standard replaces the directives of IAS 31 "Rights in Joint Ventures" (hereinafter – "IAS 31"), and amends part of the directives of IAS 28 "Investments in Associated Companies".

The Standard defines "joint arrangements" as arrangements where two or more parties have joint control (as defined in IFRS 10 above), and divides them into two categories: joint activities and joint ventures.

Set forth below are the main changes:

– Joint control is agreed-to and contractual division of control over an arrangement, and it exists only where unanimous agreement is required of the parties dividing the control between them, in order to make decisions with respect to activities of the relevant arrangement.

**Note 3 – Significant Accounting Policies (Cont.)**

**(2) New standards and interpretations not yet adopted (Cont.)**

**A. New system of accounting standards regarding consolidation of the financial statements and related matters (Cont.)**

**2) International Financial Reporting Standard IFRS 11 "Joint Arrangements" (hereinafter – "the Standard") (Cont.)**

– Joint operations – where the parties having joint control have rights in assets belonging to the arrangement and are obligated to fulfill liabilities relating to the arrangement, whether the joint arrangement is not incorporated in a separate structure or the joint arrangement is incorporated in a separate structure however the parties sharing the joint control have rights in assets relating to the arrangement and an obligation to fulfill liabilities with respect to the arrangement.

  The accounting treatment of joint operations is similar to the accounting treatment pursuant to IAS 31 of jointly-controlled assets and joint ventures, that is, recognition of as assets, liabilities and transactions and accounting for them in accordance with the relevant standards.

– Joint ventures – all joint arrangements incorporated as a separate entity and where the parties sharing joint control have rights in the net assets of the joint arrangement.

  Joint ventures are to be accounted for only using the equity method of accounting (the possibility of applying the proportionate consolidation method has been eliminated).

– Accounting treatment upon transition from significant control to joint control, or vice-versa – IAS 28 (amended) cancels the existing provision to revalue to fair value the existing or remaining rights in the investment.

– IAS 28 (amended) that IFRS 5 applies to an investment, or part thereof, in an associated company or joint venture, which meets the criteria for classification as "held for sale". Up to sale of the part of the investment that was classified as "held for sale", the equity method of accounting continues to apply to the part of the investment not classified as "held for sale".

The Standard is to be applied retroactively to annual reporting periods commencing on or after January 1, 2013, however there are specific instructions regarding the manner of the retroactive application in certain cases. Early application is permissible, subject to provision of disclosure and subject to early adoption of the entire new set of standards, that is, the two additional standards published concurrently – IFRS 10 "Consolidated Financial Statements" and IFRS 12 "Disclosures regarding Rights in Other Entities".

**Note 3 – Significant Accounting Policies (Cont.)**

**(2) New standards and interpretations not yet adopted (Cont.)**

**A. New system of accounting standards regarding consolidation of the financial statements and related matters (Cont.)**

**3) International Financial Reporting Standard IFRS 12 "Disclosures regarding Rights in Other Entities" (hereinafter – "the Standard")**

The Standard includes comprehensive disclosure requirements with reference to rights in subsidiaries, joint arrangements (jointly-controlled and joint ventures), associated companies and structured entities.

The Standard is to be applied to annual reporting periods commencing on or after January 1, 2013. Early application is permissible subject to early adoption of the entire new set of standards, that is, the two additional standards published concurrently – IFRS 11 "Joint Arrangements" and IFRS 10 "Consolidated Financial Statements". Nonetheless, the additional disclosure requirements called for by IFRS 12 may be included early without making early adoption of the additional standards.

The Group has not yet commenced examining the consequences of adoption of the standards on the financial statements.

**B. International Financial Reporting Standard IFRS 13 "Measurement of Fair Value" (hereinafter – "the Standard")**

This Standard replaces the directives with respect to fair value measurement appearing in the various IFRS, such that it will constitute the sole source for guidelines regarding the manner of fair value measurement under IFRS. For this purpose, the Standard defines what fair value is, determines the framework of guidelines regarding the manner of measuring fair value and provides disclosure requirements in connection with measurement of fair value. The Standard does not provide new requirements for measurement of assets or liabilities at fair value.

The Standard will apply to the entity's assets, liabilities and equity instruments that must be or may be measured in accordance with fair value, or regarding which disclosure of their fair value was provided in accordance with the relevant IFRS. Nonetheless, the Standard will not apply to share-based payment transactions that are covered by IFRS 2, share-based payments and lease transactions that are subject to IAS 17 "Leases". In addition, the Standard will not apply to measurements that are similar to fair value but are not fair value (for example: measurement of net realizable value of inventory under IAS 36 "Impairment of Assets").

The Standard is to be applied to annual reporting periods commencing on or after January 1, 2013. Early application is permissible, subject to provision of disclosure. The Standard is to be applied prospectively where its disclosure requirements will not apply to the comparative data for the periods prior to the initial application of the Standard.

The Group has not yet commenced examining the consequences of adoption of the standards on the financial statements.

**Note 3 – Significant Accounting Policies (Cont.)**

**(2) New standards and interpretations not yet adopted (Cont.)**

**C. Amendment to IAS 1 "Measurement of Fair Value" (hereinafter – "the Amendment")**

The Amendment changes the manner of presentation of items of other comprehensive in financial statements, such that items of other comprehensive income that after initial recognition as comprehensive income are to be transferred to the statement of income, will be presented separately from items of other comprehensive income that are never transferred to the statement of income. The Amendment also renames the statement from "statement of comprehensive income" to "statement of income and other comprehensive income". However, companies may use other names. The Amendment is to be applied retrospectively to annual periods commencing on or after July 1, 2012. Early adoption is permissible, with provision of disclosure.

The Group has not yet commenced examination of the consequences of adoption of the Amendment on the financial statements.

**D. Amendment to IAS 19 "Employee Benefits" (hereinafter – "the Amendment")**

This Amendment includes a number of changes in connection with the accounting treatment of employee benefits. Set forth below are the highlights of the changes:

- The Amendment eliminates the possibility of postponing recognition of actuarial gains and losses known as the "corridor method" and, in addition, eliminates the possibility of recognizing actuarial gains and losses directly in the statement of income. As a result, all actuarial gains and losses are to be recognized immediately in equity through the statement of other comprehensive income;

- The Amendment requires immediate recognition of costs in respect of past service, without reference to whether or not the benefits have vested;

- Calculation of the net financing income (expenses) is to be made by multiplying the liability (asset) for a net defined benefit by the discount rate used for measuring the obligation for a defined benefit. Accordingly, calculation of the actuarial gains and losses was also changed;

- The Amendment changes the definition of short-term employee benefits and of other long-term employee benefits, such that instead of determining the classification as short-term or long-term prior to the date of eligibility, the classification will depend on the entity's expectation regarding the time the benefits will be fully utilized;

- Addition of disclosure requirements in connection with defined benefit plans is intended, among other things, to provide higher quality information regarding the characteristics of defined benefit plans and the risks inherent therein.

## Note 3 – Significant Accounting Policies (Cont.)

### (2) New standards and interpretations not yet adopted (Cont.)

#### D. Amendment to IAS 19 "Employee Benefits" (hereinafter – "the Amendment") (Cont.)

– The definition of severance benefits was clarified such that they will be recognized on the earlier of the date the entity recognizes, in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", costs in respect of a structural change that also includes a payment in respect of dismissal, and the date the entity is no longer able to retract its offer to pay severance benefits.

The Amendment will apply to annual periods commencing on or after January 1, 2013 and is to be applied retrospectively (except for certain relief provisions set forth in the Amendment). Early application is permissible along with provision of disclosure.

The Group has not yet commenced examination of the consequences of adoption of the Amendment on the financial statements.

### (3) Indices and Exchange Rates

Set forth below are the rates of change in the dollar and euro exchange rates and in the CPI:

| | Consumer Price Index | Dollar–NIS exchange rate | Dollar–Euro exchange rate |
|---|---|---|---|
| | % | % | % |
| Rates of change for the six months ended: | | | |
| **June 30, 2011** | **2.2** | **(3.8)** | **(7.8)** |
| June 30, 2010 | 0.7 | 2.6 | 17.4 |
| Rates of change for the three months ended: | | | |
| **June 30, 2011** | **1.3** | **(1.9)** | **(1.8)** |
| June 30, 2010 | 1.6 | 4.4 | 9.5 |
| For the year ended December 31, 2010 | 2.6 | (6.0) | 7.9 |

## Note 4 – Information on Activity Segments

### A. General

Commencing from the period of the report, the Group's power station activities incorporated under I.C. Power Ltd., which were previously included as part of the Group's other activities, meet the quantitative criteria for presentation as a separate reportable segment, in accordance with IFRS 8. Accordingly, commencing with the period of the report, an additional activity sector is presented including the activities of the power stations. The comparative data as at December 31, 2010 and for the year then ended and for the six-month and three-month periods ended June 30, 2010, were reclassified in order to reflect therein this activity segment.

Breakdown of the Group into reportable activity segments in accordance with the Standard derives from the Management Reports, which are based on the areas of activity of the main subsidiaries making up the Group – ICL, ORL, ZIM and I.C. Power, as detailed below:

## Note 4 – Information on Activity Segments (Cont.)

### A. General (Cont.)

1) **Israel Chemicals Ltd.** – ICL is a multi-national group, operating mainly in the areas of fertilizers and special chemicals. The ICL Group has concessions and licenses for production of minerals from the Dead Sea, concessions for mining phosphate rock in the South, and mining agreements and licenses covering the mining of potash and salt from underground mines in Spain and the United Kingdom. ICL is engaged in production of these minerals, in the sale thereof throughout the world and development, production and marketing of extension products based mainly on these raw materials.

2) **Oil Refineries Ltd.** – ORL and its subsidiaries are engaged, mainly, in refining crude oil, production of fuel products, raw materials for the petrochemical industry and materials for the plastics industry. Most of the ORL Group's sales derive from ORL's purchase of crude oil and intermediary products, refining thereof and separation of the refined products into various other products – some of which are final products and some of which serve as raw materials in the manufacture of other products. Commencing from December 31, 2009, ORL is an associated company.

3) **ZIM Integrated Shipping Services Ltd.** – ZIM operates in the shipping lines' industry through use of tankers, that is, operation of shipping routes between fixed ports based on set timetables while anchoring in harbors in accordance with a predetermined plan. ZIM provides services, in an insignificant scope, which are auxiliary to its shipping activities, such as, delegation, Customs clearance, overland transport, distribution, warehousing, insurance, container terminals, marine terminal operation services and logistic services.

4) **I.C. Power Ltd.** – I.C. Power, through its investee companies, is engaged in the production and sale of electricity in countries in Latin America and the Caribbean region, as well as in activities intended for the construction and operation of power stations in Israel and Latin America.

5) **Other** – in addition to the segments detailed above, the Corporation has other activities, such as, advanced technology, vehicles, infrastructures for electric-powered vehicles and "clean" energy.

Evaluation of the segment's performance as part of the management reports is based on the EBITDA data.

Information regarding activities of the reportable segments is set forth in the following tables. Inter-segment pricing is determined based on the transaction prices in the ordinary course of business.

**Israel Corporation Ltd.**
**Notes to the Unaudited Condensed Consolidated Interim Financial Statements**
**At June 30, 2011**

## Note 4 – Information on Activity Segments (Cont.)

### B. Information relating to Business Segments

| | ICL | ORL | ZIM | I.C. Power | Other | Adjustments | Total |
|---|---|---|---|---|---|---|---|
| | Unaudited | | | | | | |
| | $ millions | | | | | | |
| **For the six months ended June 30, 2011:** | | | | | | | |
| Sales to external customers | **3,456** | **4,711** | **1,897** | **277** | **93** | **(4,711)** | **5,723** |
| Inter-segment sales | **1** | **–** | **15** | **–** | **–** | **–** | **16** |
| | **3,457** | **4,711** | **1,912** | **277** | **93** | **(4,711)** | **5,739** |
| Elimination of inter-segment sales | **(1)** | **–** | **(15)** | **–** | **–** | **–** | **(16)** |
| Total sales | **3,456** | **4,711** | **1,897** | **277** | **93** | **(4,711)** | **5,723** |
| Income before EBITDA | **1,026** | **155** | **13** | **72** | **8** | **(155)** | **1,119** |
| Depreciation and amortization | **123** | **66** | **99** | **21** | **4** | **(66)** | **247** |
| Financing income | **(12)** | **(35)** | **(4)** | **(3)** | **(91)** | **44** | **(101)** |
| Financing expenses | **56** | **110** | **98** | **34** | **173** | **(118)** | **353** |
| Share in losses (income) of associated companies | **(9)** | **4** | **(15)** | **(16)** | **66** | **(4)** | **26** |
| | **158** | **145** | **178** | **36** | **152** | **(144)** | **525** |
| Income (loss) before taxes | **868** | **10** | **(165)** | **36** | **(144)** | **(11)** | **594** |
| Taxes on income | **157** | **9** | **7** | **11** | **18** | **(9)** | **193** |
| Income (loss) for the year | **711** | **1** | **(172)** | **25** | **(162)** | **(2)** | **401** |
| **For the six months ended June 30, 2010:** | | | | | | | |
| Sales to external customers | 2,876 | 3,583 | 1,668 | 223 | 28 | (3,583) | 4,795 |
| Inter-segment sales | 1 | – | 10 | – | – | – | 11 |
| | 2,877 | 3,583 | 1,678 | 223 | 28 | (3,583) | 4,806 |
| Elimination of inter-segment sales | (1) | – | (10) | – | – | – | (11) |
| Total sales | 2,876 | 3,583 | 1,668 | 223 | 28 | (3,583) | 4,795 |
| Income before EBITDA | 792 | 108 | 54 | 58 | 47 | (108) | 951 |
| Depreciation and amortization | 104 | 69 | 91 | 16 | 1 | (67) | 214 |
| Financing income | (16) | (59) | (25) | (2) | 2 | 66 | (34) |
| Financing expenses | 32 | 68 | 69 | 15 | 24 | (75) | 133 |
| Share in losses (income) of associated companies | – | (1) | (4) | (11) | 25 | 1 | 10 |
| | 120 | 77 | 131 | 18 | 52 | (75) | 323 |
| Income (loss) before taxes | 672 | 31 | (77) | 40 | (5) | (33) | 628 |
| Taxes on income | 133 | 2 | 3 | 9 | 13 | (1) | 159 |
| Income (loss) for the year | 539 | 29 | (80) | 31 | (18) | (32) | 469 |

## Note 4 – Information on Activity Segments (Cont.)

### B. Information relating to Business Segments

| | ICL | ORL | ZIM | I.C. Power | Other | Adjustments | Total |
|---|---|---|---|---|---|---|---|
| | | | | Unaudited | | | |
| | | | | $ millions | | | |
| **For the three months ended June 30, 2011:** | | | | | | | |
| Sales to external customers | **1,928** | **2,653** | **992** | **147** | **777** | **(2,653)** | **3,144** |
| Inter-segment sales | **1** | **–** | **8** | **–** | **–** | **–** | **9** |
| | **1,929** | **2,653** | **1,000** | **147** | **76** | **(2,653)** | **3,153** |
| Elimination of inter-segment sales | **(1)** | **–** | **(8)** | **–** | **–** | **–** | **(9)** |
| Total sales | **1,928** | **2,653** | **992** | **147** | **76** | **(2,653)** | **3,144** |
| Income (loss) before EBITDA | **611** | **88** | **(25)** | **40** | **8** | **(90)** | **632** |
| Depreciation and amortization | **68** | **34** | **54** | **9** | **4** | **(34)** | **135** |
| Financing income | **(7)** | **(27)** | **(1)** | **(2)** | **(52)** | **1** | **(88)** |
| Financing expenses | **28** | **51** | **(10)** | **23** | **87** | **(24)** | **155** |
| Share in losses (income) of associated companies | **(5)** | **4** | **(8)** | **(10)** | **16** | **(5)** | **(8)** |
| | **84** | **62** | **35** | **20** | **55** | **(62)** | **194** |
| Income (loss) before taxes | **527** | **26** | **(60)** | **20** | **(47)** | **(28)** | **438** |
| Taxes on income | **96** | **8** | **5** | **6** | **7** | **3** | **125** |
| Income (loss) for the year | **431** | **18** | **(65)** | **14** | **(54)** | **(31)** | **313** |
| **For the three months ended June 30, 2010:** | | | | | | | |
| Sales to external customers | 1,494 | 1,878 | 928 | 107 | 13 | (1,878) | 2,542 |
| Inter-segment sales | 1 | – | 5 | – | – | – | 6 |
| | 1,495 | 1,878 | 933 | 107 | 13 | (1,878) | 2,548 |
| Elimination of inter-segment sales | (1) | – | (5) | – | – | – | (6) |
| Total sales | 1,494 | 1,878 | 928 | 107 | 13 | (1,878) | 2,542 |
| Income before EBITDA | 436 | 73 | 87 | 28 | 28 | (74) | 578 |
| Depreciation and amortization | 52 | 30 | 40 | 9 | 3 | (30) | 104 |
| Financing income | – | (29) | – | (1) | 7 | 23 | – |
| Financing expenses | 16 | 26 | 45 | 9 | 6 | (19) | 83 |
| Share in losses (income) of associated companies | (1) | (1) | (3) | (5) | 7 | 1 | (2) |
| | 67 | 26 | 82 | 12 | 23 | (25) | 185 |
| Income before taxes | 369 | 47 | 5 | 16 | 5 | (49) | 393 |
| Taxes on income | 72 | 15 | 2 | 4 | 13 | (14) | 92 |
| Income (loss) for the year | 297 | 32 | 3 | 14 | (8) | (35) | 301 |

## Note 4 – Information on Activity Segments (Cont.)

### B. Information relating to Business Segments (Cont.)

| | ICL | ORL | ZIM | I.C. Power | Other | Adjustments | Total |
|---|---|---|---|---|---|---|---|
| | | | | Audited | | | |
| | | | | $ millions | | | |
| **2010:** | | | | | | | |
| Sales to external customers | 5,692 | 6,792 | 3,694 | 421 | 58 | (6,792) | 9,865 |
| Inter-segment sales | – | – | 23 | – | – | – | 23 |
| | 5,692 | 6,792 | 3,717 | 421 | 58 | (6,792) | 9,888 |
| Elimination of inter-segment sales | – | – | (23) | – | – | – | (23) |
| Total sales | 5,692 | 6,792 | 3,694 | 421 | 58 | (6,792) | 9,865 |
| EBITDA income | 1,564 | 165 | 403 | 112 | 39 | (175) | 2,108 |
| Depreciation and amortization | 217 | 119 | 191 | 35 | 1 | (115) | 448 |
| Financing income | (32) | (89) | (38) | (4) | (137) | 101 | (199) |
| Financing expenses | 86 | 140 | 175 | 33 | 231 | (152) | 513 |
| Share in losses (income) of associated companies | (3) | – | (14) | (20) | 76 | – | 39 |
| | 268 | 170 | 314 | 44 | 171 | (166) | 801 |
| Income (loss) before taxes | 1,296 | (5) | 89 | 68 | (132) | (9) | 1,307 |
| Taxes on income | 267 | (82) | 28 | 12 | 22 | 79 | 326 |
| Income (loss) for the year | 1,029 | 77 | 61 | 56 | (154) | (88) | 981 |
| Other significant non-cash items: | | | | | | | |
| Decline in value of fixed and intangible assets | – | – | 21 | – | – | – | 21 |
| Segment assets | 6,360 | 4,357 | 4,061 | 1,034 | 1,101 | (4,240) | 12,673 |
| Investments in associated companies | 28 | 16 | 29 | 268 | 4,852 | (3,844) | 1,349 |
| | | | | | | | 14,022 |
| Sector liabilities | 3,747 | 3,232 | 3,344 | 651 | 3,282 | (4,069) | 10,187 |
| Capital expenses | 353 | 231 | 486 | 132 | 8 | (231) | 979 |

## Note 5 – Additional Information

### A. The Corporation

1. On March 29, 2011, the Corporation's Board of Directors decided to distribute a dividend in the amount of $70 million, about 9.18 per share. The dividend was paid on May 1, 2011.

2. In period of the report, the capital of Tower Semiconductors Ltd. (hereinafter – "Tower") increased by about $59 million (in accordance with IFRS), deriving mainly from conversion of debentures and options, issuance of shares to the Mikron Company as part of the consideration for acquisition of Mikron's manufacturing plant in Japan and issuance of shares to the Yorkville Fund and issuance of shares to banks (as provided in the agreement with the banks from September 2006).

   As a result, the Corporation's share in Tower declined (on the assumption that the capital notes will converted into shares) from about 33.2% to about 30.9% and the Corporation realized a capital gain of about $17 million.

3. The Corporation provided a guarantee, based on its indirect share in O.P.C. Rotem Ltd. (hereinafter – "OPC"), for fulfillment of OPC's liability under the financing agreements for construction of the power station, and the Corporation, by means of a wholly owned subsidiary, provided a guarantee (based on the Corporation's indirect share in the project as stated) for OPC's liability under its agreement with Israel Electric Company. These guarantees are in the total cumulative amount of about NIS 178 million, linked to the CPI (about $52 million).

4. In the period of the report, 15,087 options issued as part of the 2007 plan were exercised for 3,158 of the Corporation's ordinary shares. As at the signing date of the financial statements, the balance of the options granted as part of the 2007 plan amounts to 20,280 options.

5. In January 2011, S&P Maalot confirmed a rating for the Corporation's debentures (Series 6, 7, 8 and 9) of ilA+/stable.

6. The Corporation holds the associated companies, Better Place Inc. (hereinafter – "Better Place") and Chery Quantum Limited (hereinafter – "Chery Quantum") (hereinafter – "the Associated Companies"). The Corporation has not attached the financial statements of the Associated Companies to its financial statements, since in the Corporation's estimation the financial statements of the Associated Companies are not significant in relation to the Corporation's consolidated financial statements as at June 30, 2011, due to the fact that the Associated Companies are the early stages of their activities and at this point they have no revenues at all but, rather, only expenses, deriving mainly from marketing, R&D and administrative and general expenses. In addition, the quantitative conditions for attaching statements of an associated company with respect to these associated companies were not fulfilled in the current quarter and in the Corporation's estimation are not expected to be fulfilled in the third quarter of 2011.

   Pursuant to Regulation 23(B) of the Securities Regulations (Annual Financial Statements), 2010, the financial statements of the associated companies were not attached to the Corporation's consolidated financial statements.

   The results of Better Place in the period of the report include income, in the amount of about $36 million, from revaluation to market value of derivative liability instruments.

## Note 5 – Additional Information (Cont.)

### A. The Corporation (Cont.)

6. (Cont.)

Set forth below is summary financial data of Better Place, without adjustment for the rate of holdings, as at June 30, 2011:

Better Place

| | At June 30 | | At December 31 |
|---|---|---|---|
| | 2011 | 2010 | 2010 |
| | In Millions of U.S. Dollars | | |
| Current assets | **259** | 407 | 339 |
| Non-current assets | **64** | 20 | 48 |
| | **323** | 427 | 387 |
| Current liabilities | **40** | 19 | 30 |
| Non-current liabilities | **6** | 27 | 38 |
| Liabilities to preferred shareholders | **460** | 414 | 437 |
| Capital deficiency | **(183)** | (33) | (118) |
| | **323** | 427 | 387 |

| | For the | | | | |
|---|---|---|---|---|---|
| | Six Months Ended June 30 | | Three Months Ended June 30 | | Year Ended December 31 |
| | 2011 | 2010 | 2010 | 2010 | 2010 |
| | In Millions of U.S. Dollars | | | | |
| Operating expenses | **93** | 55 | **49** | 30 | 133 |
| Financing expenses | **(17)** | 14 | **(28)** | 11 | 38 |
| Loss attributable to holders of rights not conferring control | **(2)** | (1) | **(1)** | (1) | (4) |
| Loss for the period attributable to the owners of the Corporation | **74** | 68 | **20** | 40 | 167 |

## Note 5 – Additional Information (Cont.)

### A. The Corporation (Cont.)

6. (Cont.)

Set forth below is summary financial data of Chery Quantum, without adjustment for the rate of holdings, as at June 30, 2011:

Chery Quantum

| | At June 30 | | At December 31 |
|---|---|---|---|
| | 2011 | 2010 | 2010 |
| | In Millions of U.S. Dollars | | |
| Current assets | **276** | 348 | 330 |
| Non-current assets | **65** | 76 | 42 |
| | **341** | 424 | 372 |
| Current liabilities | **67** | 12 | 20 |
| Capital | **274** | 412 | 352 |
| | **341** | 424 | 372 |

| | For the | | | | |
|---|---|---|---|---|---|
| | Six Months Ended June 30 | | Three Months Ended June 30 | | Year Ended December 31 |
| | 2011 | 2010 | 2010 | 2010 | 2010 |
| | In Millions of U.S. Dollars | | | | |
| Operating expenses | **12** | 5 | **7** | 2 | 17 |
| Financing income | **–** | (3) | **–** | (1) | (4) |
| Decline in value | **–** | 2 | **–** | – | – |
| R&D expenses | **70** | – | **25** | – | 65 |
| Loss for the period | **82** | 4 | **32** | 1 | 78 |

**Note 5 – Additional Information (Cont.)**

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

1. In the period of the report, 1,521,114 options of ICL were exercised for 1,033,638 of ICL's ordinary shares. Subsequent to the date of the report, 567,925 options were exercised for 381,564 of ICL's ordinary shares. The Corporation's share in ICL declined by an insignificant amount.

2. On February 28, 2011, ICL completed a transaction for acquisition of the companies, assets and activities of the business unit in the specialty fertilizers area (hereinafter – "the Business Unit") owned by the U.S. company, Scotts Miracle-Gro Company (hereinafter – "the Seller").

   The consideration for the acquisition reflects a value of about $271 million for the Business Unit. The acquisition consideration was allocated as follows: about $120 million to working capital, about $22 million to property, plant and equipment, about $102 million to identifiable intangible assets and about $10 million to long-term liabilities. The balance, in the amount of about $37 million, was allocated to goodwill.

   The acquisition expenses, in the amount of about $8 million, were recorded to other expenses. The total sales of the Business Unit, for the report year ended September 30, 2010, are about $242 million (the total sales are not taken from the Seller's audited financial statements and were prepared in order to reflect the total sales of the Business Unit as an independent unit).

   The Business Unit is engaged in manufacture and sale of specialty fertilizers, growing beds, plant protection products, grass seeds for commercial nurseries, sod for public use, sport surfaces and advanced agriculture. The Business Unit has about 340 employees and it operates six manufacturing facilities located in the Netherlands, the United Kingdom and the United States, and peat mines for growing beds in the United Kingdom. The main markets in which the Business Unit operates are Europe, North America, Asia/Pacific and Africa.

   ICL intends to integrate the activities of the unit acquired into the ICL Fertilizers segment, while taking advantage of the marketing, operational and other synergies with ICL's specialty fertilizer activities. Integration of the Business Unit will expand the products' basket of ICL Fertilizers in the area of specialty fertilizers.

   Commencing from the acquisition date, the financial statements of the Business Unit are consolidated in the Corporation's consolidated financial statements.

**Note 5 – Additional Information (Cont.)**

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

3. On April 13, 2011, as part of the efficiency plan of Iberpotash S.A., a Spanish subsidiary in the ICL Fertilizers segment, the Board of Directors of ICL approved combination of the company's activities from two sites into one site. As part of this step, the production activities on the Suria site will be expanded, which include a mine and a factory, and the activities (mine and factory) on the second site will be discontinued. In the first stage of the plan, approval was granted for expansion of the potash production capacity, the potash granulation capacity, and construction of a plant for production of vacuum salt (salt with a high purity level) in Suria. In the second stage, which has not yet been approved, an additional expansion is planned of the potash production capacity, which will bring the potash production capacity to about 1.1 million tons, of which about 630 thousand tons of granulated potash and about 50 thousand tons of technical potash, as well as a production capacity of about 1.5 million tons of vacuum salt.

   In ICL's estimation, execution of the first stage of the plan is expected to be completed in the beginning of 2014.

   In ICL's estimation, execution of the first stage of the plan will lead to savings and greater efficiency that will contribute to reduction of the potash production costs, as well as improvement of the extent of the production's compliance with the sustainability values relating to the environmental protection.

   Execution of the second stage is expected to result in production of a larger quantity of potash in one mine and factory as opposed to production in mines and factories located on two different sites. The impact of the shutdown and discontinuance of the activities of the second site on the Company's results in the second quarter of 2011 is not significant.

4. In April 2011, a subsidiary of ICL in Spain acquired 100% ownership of A. Fuentes Mendea S.A. (hereinafter – "the Acquired Company"), which is engaged in production and marketing of specialty fertilizers in Spain. The acquisition price less the balance of cash in the Acquired Company amounted to about $122 million. The financial statements of the Acquired Company are included in ICL's consolidated financial statements commencing from the second quarter of 2011. As at the approval date of the financial statements, ICL had not yet completed allocating the acquisition consideration to the assets and liabilities acquired. The excess of cash consideration of the acquisition over the net amount of assets and liabilities of the acquired company, which totaled about $82 million, were attributed at this stage to goodwill.

**C. ZIM Integrated Shipping Services Ltd. (hereinafter – "ZIM")**

On September 26, 2010, Maalot informed ZIM of an upgrade of the rating of the debentures to ilBB+ with a positive outlook. On February 24, 2011, Maalot informed ZIM of an upgrade of the rating of the debentures to ilBBB– with a stable outlook. The rise in the rating was reflected in measurement of the fair value of certain of ZIM's assets and liabilities.

**Note 5 – Additional Information (Cont.)**

**D. Oil Refineries Ltd. (hereinafter – "ORL")**

1. Further to that stated in Note 22.C.4.H.e. of the Annual Financial Statements, and ORL's reports regarding the natural gas pipeline to Haifa Bay and the signing of a gas supply agreement with East Mediterranean Gas SAE, (hereinafter – "EMG") (hereinafter – "the Gas Supply Agreement"), in the period of the report, the plants of ORL and its subsidiaries (the ORL Group) were connected to the national natural gas pipeline and accordingly, the ORL Group companies started to use natural gas in their plants. Due to the recurring sabotage to the Egyptian gas pipeline, in the period of the report ORL signed the agreement described in Section 2 below.

2. On May 20, 2011, ORL signed an agreement with the Yam Tethys group for the purchase of a total quantity of 1.2 BCM (hereinafter – "the Contractual Quantity") for itself and for its subsidiaries, over a 27-month supply period commencing from June 1, 2011 (hereinafter – "the Base Agreement Period"). The consideration for the entire Contractual Quantity will be paid in installments during the Base Agreement Period or over a shorter period of time should the ORL Group consume the full Contractual Quantity sooner than planned. The agreement does not obligate ORL Group to any volume or consumption rate during the Base Agreement Period. If the ORL Group does not consume the entire Contractual Quantity over the Base Agreement Period, the supply period set out in the agreement will be extended for an additional period, to allow the ORL Group to consume the Contractual Quantity. The agreed consideration consists of a fixed component and a variable component that is determined according to a pricing formula based on the price of crude oil, with a minimum price but not a maximum price. The monetary scope of the agreement is estimated at about $350 million (based on calculation of the formula when the agreement was signed). ORL believes that agreements for the purchase of natural gas from two different suppliers will facilitate the Group's rapid transition to ongoing use of natural gas for all its needs.

**E. I.C. Power Ltd. (hereinafter – "I.C. Power")**

1. In February 2011, Inkia Energry Ltd. (hereinafter – "Inkia"), a subsidiary of I.C. Power, published a tender offer for shares of Edegel S.A.A. as a result of an agreement with the Peru Securities Authority. The tender offer ended in March 2011 with no response whatsoever.

2. In March 2011, a subsidiary of I.C. Power in Peru won a tender published for supply of electricity from new hydro-electric power plants in Peru, in an overall scope of 200 megawatts, whereby the subsidiary will supply electricity to the electric company owned by the government of Peru Inkia for a period of 15 years commencing January 2016. The annual scope of the tender is about $75 million (the scope of the tender for the entire period is $1.1 billion).

**Note 5 – Additional Information (Cont.)**

**E. I.C. Power Ltd. (hereinafter – "I.C. Power")** (Cont.)

3. In April 2011, Inkia issued $300 million par value debentures. The debentures were issued for a period of 10 years, with a yield-to-maturity of 8.5%. The proceeds from the issuance were used to make early repayment of the debentures Inkia issued in 2008 in the local market in Peru, closing of a currency SWAP transaction in connection with the debentures repaid, and the balance is expected to be used, mainly, for investment in a hydroelectric project in Peru.

   Inkia repaid the balance of its additional debentures, in the amount of about $83 million, which included a 6% premium. As a result of repayment, I.C. Power recorded a loss of about $5 million.

4. In January 2011, a rating of AA3 with a stable outlook was approved by the Rating Committee of Midrug Ltd. for the senior debt of O.P.C., in connection with a project for construction of a power station. The rating relates to the operation period.

5. In January 2011, I.C. Power signed an amendment to the Power Purchase Agreement (hereinafter – "the PPA") with Israel Electric Company Ltd. (hereinafter – "Israel Electric Company"), regarding mainly provisions relating to the project's financing, in light of requests of the project's financing parties and without there having been a significant change in the agreement's provisions. As part of the said amendment, the amount of the agreed-to compensation referred to above was updated, as detailed in Note 22C5a to the Annual Financial Statements.

   OPC has the possibility of removing capacity from Israel Electric Company and selling it to end users, in accordance with the rules of the electricity industry, after providing advance notice the length of which depends on the quantity of the capacity removed. OPC notified Israel Electric Company of reduction of 330 megawatts from the capacity under the PPA for purposes of the sale thereof to private consumers. OPC is in various stages of negotiations with different private consumers for sale of the station's full production capacity for periods of 10 years. In connection with every transaction signed by OPC with an end user, it will be required, based on benchmarks published by the Electricity Authority to deposit security with Israel Electric Company in the amount of 70% of the average TAOZ (electricity index) payment of its consumers in the summer season. On the other hand, generally, for commercial considerations, OPC does not request collaterals from all its consumers. In a transaction with a private consumer, the price to the final consumer is based on its acquisition alternative from Israel Electric Company, with a certain discount of the production component in the TAOZ tariff and with the addition of the payments to Israel Electric Company.

6. In the period of the report, the shareholders provided bank guarantees to Israel Electric Company, in accordance with their proportionate interests. Accordingly, the collaterals that served as the bank guarantee were released and returned to the owners. For additional details – see Note 22C5b to the annual financial statements.

## Note 5 – Additional Information (Cont.)

### E. I.C. Power Ltd. (hereinafter – "I.C. Power") (Cont.)

7. On January 2, 2011, an agreement was signed with a consortium of lenders led by Bank Leumi L'Israel Ltd. for financing construction of the power station project on the Rotem Plain. The project involving construction of the power station will be financed based on the "project financing" method. In the period of the report and subsequent to the period of the report, OPC made a withdrawal from the senior debt, in the amount of about $59 million and about $124 million, respectively. The loan is linked to the CPI and bears linked interest. The loan and the accrued interest are to be repaid in quarterly payments commencing from June 2013 and up to December 2030. For purposes of making the withdrawal, OPC received a waiver letter with respect to some of the preconditions for making this withdrawal – see Note 22C5g to the annual financial statements.

### F. Chery Quantum Limited (hereinafter – "Chery Quantum")

On May 19, 2011, the Chinese Authority for Development and Reforms approved the request of Chery Quantum to transfer its plant from Wuhu in the Hui district to Changshu in the Jiangsu district. Pursuant to the approval, the total area of the factory is about 716.5 duanms and the gross built-up area is about 200 dunams. The total expected investment in the first stage of the construction is about RMB 7 billion (about $1,077 million), which is to be financed from the shareholders' equity of Chery Quantum and from new investments of each of the parties holdings interests in the joint venture in accordance with the business plan.

## Note 6 – Contingent Liabilities and Commitments

A. As detailed in Note 22B2(b)(2), Notes 22B3(a)1-2 and Note 22B3(b)-(h), to the Annual Financial Statements, a number of legal claims have been filed against a subsidiary of ICL, against ORL and certain investee companies of ORL, as well as against against dozens of other defendants, alleging bodily injury and property damage caused to the plaintiffs stemming from pollution of the Kishon Stream, and there are also legal proceedings against ORL, laws have been enacted and orders have been issued relating to the fuel and gas industry and infrastructure facilities belonging to ORL. The managements of ICL and ORL, based on opinions of their legal advisors, are not able at this stage to estimate the impact of that stated above, if any, on the financial statements as at June 30, 2011 and, therefore, no provision has been included in the financial statements relating to this matter.

B. In order to conduct its operations, ORL is dependent upon services from the infrastructure companies, Petroleum and Energy Infrastructures Ltd. (hereinafter – "PEI") and Eilat Ashkelon Pipeline Company Ltd. (hereinafter – "EAPC"), which own crucial infrastructures pertaining to the unloading, shipping, storage, and production of crude oil and distillates. According to information furnished to ORL by PEI, PEI is expected to replace part of its offshore pipeline used for unloading crude oil in Haifa Bay and delivery thereof to ORL's refinery. At this stage, there is no estimate as to when PEI is expected to perform the replacement. To the best of ORL's knowledge, the replacement process is expected to continue for about one month, and ORL will make preparations to reduce to a minimum the effect of the shutdown on the scope of the refining, but in any event, some reduction in the extent of the refining during this period is to be expected.

**Note 6 – Contingent Liabilities and Commitments (Cont.)**

C. Further to that stated in Note 22B1(a)–(b) to the Annual Financial Statements, in 2009, a request was filed by a shareholder for approval to file a derivative claim against directors that served the Corporation during the relevant period, interested parties in the Corporation, and the subsidiary ZIM (hereinafter – "the Ifat Request"). During 2010, the requesting party in the Ifat Request contacted all the respondents with a demand for discovery of various documents. In 2010, the above-mentioned requesting party filed a request with the Court for discovery and perusal of various documents, and the Corporation submitted its objection to this request. The Court accepted the Corporation's objection with respect to most of the documents requested – except regarding two documents. In connection with two of the documents requested, on February 23, 2011 the Court ordered, after it accepted the appeal filed by the Corporation, to transfer the documents for the requesting party's perusal after the confidential sections were blacked-out. The Corporation acted in accordance with the Court's instructions.

The hearing on Ifat's request, as well as with respect to the Zelicha Request (as defined in the annual financial statements as at December 31, 2010), was held before the Court on June 20, 2011, during which the requesting party in the Zelicha Request was questioned. Additional hearing dates have been set for February 2012.

Based on the estimation of its legal advisors, the Corporation believes it will have reasonable defense claims against approval of the derivative claims, as well as to reject the substantive claims themselves. In any event, in general, a derivative does not create exposure for a company itself, and in the opinion of the Corporation's legal advisors this is true in the present case as well.

D. Further to that stated in Note 22B5 to the Annual Financial Statements regarding a claim filed on October 23, 2009 against the Corporation in the Federal Court in the State of New York, the document discovery process has been completed, and the Corporation's legal advisors believe, on the basis of their examination up to now of the documents and declarations as part of the factual discovery, that the Corporation has solid defense arguments against the contentions raised in the amended statement of claim.

With respect to the arbitration proceedings between Chery Automobiles Limited (hereinafter – "Chery") and the plaintiff, to the best of the Corporation's knowledge, and as it was informed, taking into account the fact that the process is subject to confidentiality, on October 29, 2010, the plaintiff filed an amended statement of claim against Chery (including parties related to Chery), as part of the arbitration proceedings, and on January 28, 2011 Chery filed a statement of defense and a counterclaim. To the best of the Corporation's knowledge, and as it was informed, on February 11, 2011, the plaintiff submitted a reply to the statement of defense and counterclaim submitted by Chery. On March 11, 2011, the parties related to Chery filed their responses. Pursuant to an opinion of the Corporation's legal advisors, taking into account, among other things, the fact that the Corporation is not a party to the arbitration, that the process is being carried on subject to confidentiality and the Corporation's do not have access to the evidence submitted in the process, and considering the fact that the process of submission of evidence and discovery of documents is continuing and has not yet been completed, they are unable to predict the outcome of the said arbitration proceedings. In addition, based on an opinion of the Corporation's legal advisors, prior to clarification of the basis for the decisions against Chery, if any, in the framework of the arbitration proceedings in Hong Kong, it is too early to assess the potential application of the indemnification proceedings included in the joint venture agreement, as stated below, to Chery and/or the Corporation, as applicable.

**Note 6 – Contingent Liabilities and Commitments (Cont.)**

E. Further to that stated in Note 22B6 to the Annual Financial Statements, in the period of the report, the Federal Court in Texas accepted the request of Crystal Power Ltd. (hereinafter – "Crystal") to remand part of the claims relating to alleged violations of the investment agreement, where El Paso signed the compromise with CEL, to the local court in Brazoria, Texas. Inkia filed an appeal of this decision and the Court granted the appeal. In addition, the Federal Court denied the request not to consolidate the claims, similar to the judge's recommendation, and decided to hold a hearing, on May 19, 2011, in order to hear the contentions of the parties in connection with the question whether the Court will decide regarding the matter of which claims are to be cancelled as a result of the compromise agreement signed by Crystal with El Paso. As a result of the hearing, the Court instructed Crystal to indicate which of its claims are still relevant as a result of the compromise agreement. Crystal filed the document and Inkia's legal advisors filed their objections to Crystal's document. The Court is expected to schedule a hearing in order to hear the contentions of the parties.

In August 2011, the Judge recommended to transfer the claims back to the local court. Inkia's legal advisors are expected to object to the recommendation.

F. Further to that stated in Note 22D1 to the Annual Financial Statements, on January 9, 2011, the State and Dead Sea Works (hereinafter – "DSW") decided to turn to arbitration for purposes of deliberating and deciding the issue of the manner of calculation of the royalties by the concessionaire, payment of the royalties with respect to the excess above 3 million tons of potash per year commencing from 2010 and thereafter, and royalties to be paid for magnesium metals and payment or refunds due (if any) deriving from these matters. Each of the parties appointed an arbitrator on its behalf and these arbitrators are to appoint a third arbitrator.

On March 14, 2011, a statement of claim was received from the State of Israel against DSW in the framework of the arbitration proceedings wherein the State is demanding the amount of $265 million in respect of an underpayment of royalties for the years 2000 through 2009, where such amount bears interest and linkage differences, an additional amount of $26 million in respect of an increase in the royalties' rate, commencing from 2010, in connection with the annual sales' quantity in excess of 3 million tons of potash, as well as a change in the calculation method for payment of royalties relating to metal magnesium.

On July 31, 2011, DSW filed its statement of defense to the arbitrators appointed.

An initial reading of the State's contentions in connection with past years indicates that no new significant contentions are being raised that were not known to DSW and with respect to which DSW believes, based on an opinion it has from its legal advisors, that the royalties it paid and the manner of their calculation conform to the provisions of the concession. A calculation method is involved that was applied consistently since the time DSW was a government company, which was known to the State and acceptable to it. Also based on the legal opinion it received, DSW did not record a provision in the financial statements in respect of royalty amounts (which are not defined) that the Accountant General claims were underpaid.

## Note 6 – Contingent Liabilities and Commitments (Cont.)

F. (Cont.)

Regarding increase of the royalties' rate commencing from 2010 in connection with annual sales' quantity in excess of 3 million tons of potash, in light of the fact that this is a re-hearing without instructions having been provided to the parties as to the parameters to be considered in order to decide on the royalty rate exceeding the present rate (5%), and in light of the fact that the arbitration proceedings have not yet commenced, DSW is not able to determine that a certain outcome out of the range of possible outcomes between the present royalty rate and the maximum royalty rate is more probable than other outcomes. Accordingly, ICL recorded a provision equal to half of the difference.

G. In the period of the report, O.P.C., I.C. Power Israel Ltd., and a subsidiary of ICL received from the natural gas supplier, EMG, for no consideration whatsoever, an extension to exercise the option they were granted to acquire an additional quantity of natural gas, such that O.P.C. will be permitted to exercise the option up to June 30, 2011, I.C. Power and the subsidiary of ICL will be permitted to exercise the option up to December 31, 2011.

H. Further to that stated in Note 22B4b to the Annual Financial Statements, during 2009, a shipping company initiated arbitration proceedings against ZIM in an aggregate amount of about $151 million. The dispute is in connection with cooperation agreements that the shipping company claims were reached between the parties. Understandings were reached between ZIM and the shipping companies with respect to joint business cooperation between them and opening of a new line. Pursuant to these understandings, subject to ZIM complying with its above-mentioned liabilities, the claim against ZIM will be cancelled. In the estimation of ZIM's Management, based on the opinion of its legal advisors, ZIM has no exposure as a result of those claims and/or understandings in excess of the amount of the provision ZIM has recorded in its financial statements.

I. On March 14, 2011, ICL signed an agreement with a group of 17 banks from Europe, the United States and Israel whereby these banks made available to ICL credit in the amount of $675 million. The credit line is for a period of 5 years and will be repaid in one lump-sum at the end of the period. In case of using up to $225 million of the available credit, the basic interest is Libor + 0.8%. In case of higher use of the credit, an additional interest of 0.15%-0.3% will be charged.

J. Further to that stated in Note 22B2c to the Annual Financial Statements, regarding increase in the level of Pond 150, on April 14, 2011, the Supreme Court issued a conditional order instructing the State to adopt one of the permanent solutions for protecting the Dead Sea within three months of the issuance date of the order. A hearing on the application is expected to be held in September – October 2011. In June 2011 a notice was published by the Prime Minister's Office to the effect that the solution preferred by the Prime Minister is full harvest of the salt from the bed of the pond and its removal to the Northern section of the Dead Sea. Following the Prime Minister's notice, on July 13, 2011, ICL announced that talks are being held between its representatives and officials from the Ministry of Finance regarding all the matters involved in application of the harvesting solution, including the manner of allocating the financing.

## Note 6 – Contingent Liabilities and Commitments (Cont.)

J. (Cont.)

A National Site Plan for the Dead Sea area (including the concession area) known as TAMA 13 is being prepared. The policy statement of the National Site Plan was recently approved by the National Council. The document presents a vision whereby the area in which the company operates will continue to for serve for industry, tourism and community residences, while preserving environmental aspects. The next step will be to prepare a Site Plan for the area based on the policy statement.

K. Regarding liabilities outstanding against the Corporation and investee companies – see Note 22 to the Corporation's Annual Financial Statements.

## Note 7 – Events Occurring Subsequent to the Period of the Report

Further to that stated in Note 22E3c to the Annual Financial Statements, subsequent to the period of the report. ZIM and its subsidiaries signed updated agreements with the financing banks in connection with the financial covenants that ZIM is subject to, as described below:

The Group and the banks reached the following main agreements:

1. Minimum Liquidity – as at September 30, 2011, ZIM is required to hold cash and cash equivalents, marketable securities and available deposits in the minimum amount of $80 million.

2. Minimum EBITDA – as at September 30, 2011, ZIM is required to have Minimum EBITDA, after certain adjustments as specifically indicated in the facility agreements, of $50 million (based on the first nine months of 2011). This amount will gradually increase to $250 million until and as at December 31, 2013 (based on the last twelve months). The adjustments include, among others, the following:

   a) Elimination of the impact of exceptional, non-recurring and extraordinary items.

   b) Elimination of any income over the book value or adding back of any losses over the book value (which are not disposals in the ordinary course of business).

   c) Elimination of any unrealized gains or losses on any financial instruments.

   d) Addition of the cash amount of any equity investment in ZIM.

   e) Adding back any losses and deducting any gains relating to uncompleted voyages.

   f) Adding back the amount of any dividends received in cash from unconsolidated companies.

**Note 7 – Events Occurring Subsequent to the Period of the Report (Cont.)**

3. Total Secured Leverage Ratio – as of September 30, 2011, ZIM is required to have a Secured Leverage Ratio (which defined as "Consolidated Net Secured Debt to Minimum EBITDA"), of 1:20 (based on the first nine months of 2011). This ratio will gradually reduce to 1:3 until and as at December 31, 2013 (based on the last twelve months). Consolidated Net Secured Debt is defined as secured indebtedness on ships, containers or real estate adjusted mainly by deducting the aggregate amount of cash and cash equivalents, marketable securities and deposits.

4. Interest Cover – as at September 30, 2011, ZIM is required to have an Interest Cover (defined as "Minimum EBITDA to Interest Expense"), of 1:0.6 (based on the first nine months of 2011). This ratio will gradually increase to 1:2.5 until and as at December 31, 2013 (based on the last twelve months). Interest Expense is defined as net interest expenses excluding mainly interest that is or is to be capitalized, paid in a cash equivalent and the amount of any discount amortization.

5. Loan to Value Ratio – If and to the extent ZIM raises an amount of $400 million or more by means of a public issuance of shares or an issuance of debentures, such ratio will be added to the banks financing the ships, at a rate to be determined by the mutual consent of the parties.

6. Dividend – until the Loan to Value Ratio financial covenant takes effect, ZIM will not be permitted to distribute dividend.

In light of that stated above, it was agreed that the timetable for repayment of the debt will change such that $45 million of the total amount of the debt that was scheduled to be repaid in the upcoming years, according to ZIM's existing repayment schedule, will be paid on earlier dates in the upcoming months (and accordingly the amount repayable in the upcoming years will decrease).

As at June 30, 2011, ZIM was in compliance with the financial covenants determined with the banks.

As part of the said undertaking for change of the financial covenants, two subsidiaries of ZIM (ship companies) were included, which are held jointly by ZIM and Ofer Shipping Ltd. (50/50). The undertaking as stated is in the ordinary course of business and on market terms similar to the terms entered into by all of ZIM's other wholly owned subsidiaries.

# Israel Corporation Ltd.

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

## As at June 30, 2011

## (Unaudited)

**Israel Corporation Ltd.**
**Separate Information provided in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970**
**As at June 30, 2011**
**Unaudited**

## Contents

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**To the Shareholders of Israel Corporation Ltd.**

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

**Introduction**

We have reviewed the separate-company interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970, of Israel Corporation Ltd. (hereinafter – "the Corporation") as at June 30, 2011 and for the periods of six months and three months ended on that date. The separate-company interim financial information is the responsibility of the Corporation's Board of Directors and Management. Our responsibility is to express a conclusion on the separate-company interim financial information based on our review.

We did not review the condensed interim financial information of an investee company, the investment in which is about $38 million as at June 30, 2011 and the Corporation's share in its loss is about $2 million and in its income is about $1 million for the six-month and three-month periods ended June 30, 2011, respectively. The financial statements of this company were reviewed by other auditors whose review report was provided to us and our conclusion, insofar as it relates to amounts included in respect of this company, is based on the review report of the other auditors.

**Scope of the Review**

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

**Conclusion**

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

Without qualifying our above-mentioned conclusion, we direct attention to:

1. That stated in Note 6A regarding claims filed against a subsidiary and an associated company in connection with legal proceedings, supervision of the governing authorities, other contingencies, laws and proposed laws relating to the fuel and gas industries and infrastructure facilities, with respect to which the managements of the subsidiaries, based on opinions of their legal advisors, are unable to assess the amount of the exposure, if any, and accordingly no provision has been included in the financial statements in respect thereof.

2. That stated in Notes 6B and 5D regarding the dependency of an associated company on receipt of services from infrastructure companies and suppliers of natural gas.

**Somekh Chaikin**
**Certified Public Accountants (Isr.)**

**August 24, 2011**

**Israel Corporation Ltd.**
**Condensed Interim Separate-Company Financial Information as at June 30, 2011**
**Condensed Interim Statements of Financial Position Information**

| | At June 30 | | At December 31 |
|---|---|---|---|
| | 2011 | 2010 | 2010 |
| | (Unaudited) | | (Audited) |
| | In Millions of U.S. Dollars | | |
| **Current Assets** | | | |
| Cash and cash equivalents | **599** | 454 | 458 |
| Short-term deposits | **37** | – | 53 |
| Loans to investee companies | **9** | 3 | 16 |
| Other receivables and debit balances | **1** | 1 | 49 |
| Derivative instruments | **95** | *36 | 54 |
| Income taxes receivable | **24** | 33 | 22 |
| **Total current assets** | **765** | 527 | 652 |
| **Non-Current Assets** | | | |
| Investments in investee companies | **3,328** | 3,017 | 3,338 |
| Investments in other companies | **8** | 14 | 14 |
| Loans to investee companies | **598** | 444 | 559 |
| Debit balances, including derivative instruments | **372** | *211 | 327 |
| **Total non-current assets** | **4,306** | 3,686 | 4,238 |
| **Total assets** | **5,071** | 4,213 | 4,890 |

* Reclassified.

**Israel Corporation Ltd.**
**Condensed Interim Separate-Company Financial Information as at June 30, 2011**
**Condensed Interim Statements of Financial Position Information**

| | At June 30 | | At December 31 |
|---|---|---|---|
| | 2011 | 2010 | 2010 |
| | (Unaudited) | | (Audited) |
| | In Millions of U.S. Dollars | | |
| **Current Liabilities** | | | |
| Current maturities in respect of non-current liabilities | **437** | 174 | 265 |
| Other payables and credit balances | **31** | 28 | 29 |
| Derivative instruments | **35** | *30 | 35 |
| **Total current liabilities** | **503** | 232 | 329 |
| **Non-Current Liabilities** | | | |
| Loans from banks | **528** | 549 | 534 |
| Debentures | **1,525** | 1,310 | 1,563 |
| Long-term liabilities, including derivative instruments | **79** | *82 | 75 |
| **Total non-current liabilities** | **2,132** | 1,941 | 2,172 |
| **Total liabilities** | **2,635** | 2,173 | 2,501 |
| **Equity** | | | |
| Share capital and premium | **285** | 281 | 282 |
| Capital reserves | **147** | 34 | 107 |
| Capital reserve for transactions with controlling shareholder | **113** | 66 | 90 |
| Retained earnings | **1,891** | 1,659 | 1,910 |
| **Total equity attributable to the owners of the Corporation** | **2,436** | 2,040 | 2,389 |
| **Total liabilities and equity** | **5,071** | 4,213 | 4,890 |

* Reclassified.

| | | |
|---|---|---|
| **Amir Elstein** | **Nir Gilad** | **Avisar Paz** |
| **Chairman of the Board of Directors** | **CEO** | **CFO** |

Approval date of the financial statements: August 24, 2011

**Israel Corporation Ltd.**
**Condensed Interim Separate-Company Financial Information as at June 30, 2011**
**Condensed Interim Statements of Income Information**

| | For the | | | | |
|---|---|---|---|---|---|
| | Six Months Ended June 30 | | Three Months Ended June 30 | | Year Ended December 31 |
| | 2011 | 2010 | 2011 | 2010 | 2010 |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| | In Millions of U.S. Dollars | | | | |
| Administrative and general expenses | **(10)** | (4) | **(4)** | (3) | (14) |
| Other income | **17** | 47 | **9** | 32 | 59 |
| **Operating income** | **7** | 43 | **5** | 29 | 45 |
| Financing expenses | **(171)** | (32) | **(89)** | (1) | (220) |
| Financing income | **94** | 8 | **56** | – | 143 |
| **Financing expenses, net** | **(77)** | (24) | **(33)** | (1) | (77) |
| Share in income of investee companies, net | **139** | 200 | **150** | 142 | 527 |
| **Income before taxes on income** | **69** | 219 | **122** | 170 | 495 |
| Taxes on income | **19** | 13 | **19** | 13 | 21 |
| **Income for the period attributable to the owners of the Corporation** | **50** | 206 | **103** | 157 | 474 |

**Israel Corporation Ltd.**
**Condensed Interim Separate-Company Financial Information as at June 30, 2011**
**Condensed Interim Statements of Comprehensive Income Information**

| | For the | | | | |
|---|---|---|---|---|---|
| | Six Months Ended June 30 | | Three Months Ended June 30 | | Year Ended December 31 |
| | 2011 | 2010 | 2011 | 2010 | 2010 |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| | In Millions of U.S. Dollars | | | | |
| **Income for the period** | **50** | 206 | **103** | 157 | 474 |
| **Components of other comprehensive income (loss)** | | | | | |
| Effective portion of the change in fair value of cash flow hedges | **(1)** | (4) | – | (2) | (5) |
| Net change in fair value of cash flow hedges transferred to the statement of income | **1** | 1 | – | – | 2 |
| Net change in fair value of financial assets available for sale | **(4)** | (18) | – | (6) | (18) |
| Net changes in fair value of available for sale financial assets transferred to the statement of income | **6** | – | – | – | – |
| Other comprehensive income (loss) in respect of investee companies, net | **34** | (62) | **1** | (41) | 8 |
| **Other comprehensive income (loss) for the period, net of tax** | **36** | (83) | **1** | (49) | (13) |
| **Total comprehensive income for the period attributable to the owners of the Corporation** | **86** | 123 | **104** | 108 | 461 |

**Israel Corporation Ltd.**
**Condensed Interim Separate-Company Financial Information as at June 30, 2011**
**Condensed Interim Statements of Cash Flows Information**

| | For the | | | | |
|---|---|---|---|---|---|
| | Six Months Ended June 30 | | Three Months Ended June 30 | | Year Ended December 31 |
| | 2011 | 2010 | 2011 | 2010 | 2010 |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| | In Millions of U.S. Dollars | | | | |
| **Cash flows from operating activities** | | | | | |
| Income for the period | **50** | 206 | **103** | 157 | 474 |
| Adjustments: | | | | | |
| Financing expenses, net | **69** | 10 | **31** | (13) | 77 |
| Share in income of investee companies, net | **(139)** | (200) | **(150)** | (142) | (527) |
| Capital gains, net | **(17)** | (47) | **(9)** | (32) | (59) |
| Share-based payment transactions | **7** | – | **4** | – | 5 |
| Loss on investment in available for sale securities | **8** | – | **2** | – | – |
| Taxes on income | **19** | 13 | **19** | 13 | 21 |
| | **(3)** | (18) | **–** | (17) | (9) |
| Change in receivables and income tax receivable | **(13)** | (40) | **(2)** | (43) | (22) |
| Change in provisions and payables | **–** | 4 | **–** | 8 | (39) |
| | **(16)** | (54) | **(2)** | (52) | (70) |
| Dividend received | **265** | 445 | **177** | 445 | 536 |
| **Net cash provided by operating activities** | **249** | 391 | **175** | 393 | 466 |
| **Cash flows from investing activities** | | | | | |
| Investments in investee and other companies | **–** | (190) | **–** | (54) | (239) |
| Short-term deposits and loans, net | **12** | (4) | **(3)** | (3) | (59) |
| Sale of securities held for trade, net | **–** | 1 | **–** | – | 1 |
| Provision of long-term loans to investee companies | **(51)** | (27) | **(8)** | (17) | (122) |
| Collection of long-term loans from investee companies | **29** | 10 | **–** | – | 13 |
| Interest received | **4** | *16 | **1** | *15 | 26 |
| Proceeds from sale of derivatives, net | **–** | *(2) | **(1)** | *(5) | 11 |
| **Net cash used in investing activities** | **(6)** | (196) | **(11)** | (64) | (369) |
| **Cash flows from financing activities** | | | | | |
| Acquisition of rights not conferring control | **–** | – | **–** | – | (16) |
| Proceeds from sale of holdings in investee company | **–** | 106 | **–** | – | 106 |
| Dividend paid | **(70)** | – | **(70)** | – | – |
| Receipt of long-term loans and issuance of debentures | **50** | – | **50** | – | 392 |
| Repayment of long-term loans and debentures | **(23)** | (28) | **(11)** | (16) | (266) |
| Interest paid | **(52)** | *(43) | **(17)** | *(14) | (103) |
| Payment for settlement of derivatives used for hedging | **–** | *(1) | **1** | *– | (2) |
| **Net cash provided by (used in) financing activities** | **(95)** | 34 | **(47)** | (30) | 111 |
| **Net increase in cash and cash equivalents** | **148** | 229 | **117** | 299 | 208 |
| Cash and cash equivalents at the beginning of the period | **458** | 230 | **491** | 160 | 230 |
| Effect of exchange rate fluctuations on balances of cash and cash equivalents | **(7)** | (5) | **(9)** | (5) | 20 |
| **Cash and cash equivalents at the end of the period** | **599** | 454 | **599** | 454 | 458 |

* Reclassified.

**Israel Corporation Ltd.**
**Condensed Interim Separate-Company Financial Information as at June 30, 2011**
**(Unaudited)**

## Additional Information

### 1. General

The interim separate-company financial information is presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970, and the Tenth Addendum to the Securities Regulations (Periodic and Immediate Reports), 1970, regarding separate-company financial information of an entity. The interim separate-company financial information should be read together with the separate-company financial information as at December 31, 2010 and for the year then ended and together with the consolidated financial statements.

**In this separate-company interim financial information:**

| | | | |
|---|---|---|---|
| (1) | The Corporation | – | Israel Corporation Ltd. |
| (2) | Subsidiaries | – | Companies, including partnerships, the financial statements of which are fully consolidated, directly or indirectly, with those of the Corporation. |
| (3) | Investee companies | – | Subsidiaries and companies, including partnerships or joint ventures, where the Corporation's investment therein is included, directly or indirectly, in the financial statements using the equity basis of accounting. |

### 2. Relationships, Undertakings and Significant Transactions with Investee Companies

(1) In the period of the report, investee companies declared dividends in the amount of about $649 million. The Corporation's share in these distributions is about $265 million.

(2) In the period of the report, the Corporation invested the amount of about $38 million in I.C. Power Ltd. by means of capital notes.

### 3. Dividend

On March 29, 2011, the Corporation's Board of Directors decided to declare a dividend in the amount of $70 million – about $9.18 per share. The dividend was distributed on May 1, 2011.

* For additional information regarding investee companies – see Note 5 to the Consolidated Financial Statements.

# Israel Corporation Ltd.

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

## As at June 30, 2011

## (Unaudited)

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

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

For this purpose, the members of management are:

Nir Gilad, CEO;

Avisar Paz, CFO;

Eran Sarig, Deputy CEO of Business and Strategic Development;

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

Eli Goldstein, Deputy CEO of Communications and Regulations.

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

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

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

In the Quarterly Report regarding the effectiveness of the internal control over the financial reporting and the disclosure, which was attached to the Quarterly Report for the period ended March 31, 2011 (hereinafter – "the Latest Quarterly Report regarding the Internal Control"), the internal control was found to be effective.

Up to the date of the report, no event or matter was brought to the attention of the Board of Directors and the Management that is sufficient to change the evaluation of the effectiveness of the internal control, as found in the Latest Quarterly Report regarding the Internal Control.

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

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

**Management Representation**
**Declaration of the CEO**

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

I, Nir Gilad, declare that:

(1) I have examined the financial statements and other financial information included in the statements of Israel Corporation Ltd. (hereinafter – "the Corporation") as at June 30, 2011 (hereinafter – "the Statements").

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

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

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

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

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

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

(a) Have determined controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, which are designed to ensure that significant information relating to the Corporation, including its subsidiaries as defined in the Securities Regulations (Preparation of Annual Financial Statements), 1993, to the extent it is relevant to the financial statements and the other information presented in the Statements is brought to my attention by others in the Corporation and the subsidiaries, particularly during the period of preparation of the Statements; and –

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

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

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

August 24, 2011

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Nir Gilad, CEO

**Management Representation**
**Declaration of the most Senior Officer in the Finance Area**

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

I, Avisar Paz, declare that:

(1) I have examined the interim consolidated financial statements of Israel Corporation Ltd. (hereinafter – "the Corporation") as at June 30, 2011 (hereinafter – "the Statements").

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

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

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

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

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

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

(a) Have determined controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, which are designed to ensure that significant information relating to the Corporation, including its subsidiaries as defined in the Securities Regulations (Annual Financial Statements), 1993, to the extent it is relevant to the financial statements and the other information presented in the Statements is brought to my attention by others in the Corporation and the subsidiaries, particularly during the period of preparation of the Statements; and –

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

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

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

August 24, 2011

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Avisar Paz, CFO