Israel Corporation LTD

Financial Statements
As at September 30, 2008
(Unaudited)

Israel Corporation Ltd.
Condensed Interim Consolidated Financial Statements
At September 30, 2008
Unaudited

Contents

Israel Corporation Ltd.
Report of the Corporation's Board of Directors

For the Nine Months Ended September 30, 2008

Israel Corporation Ltd. (hereinafter – "the Corporation") is an investment company engaged in the 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 held at the rate of 55% by the Ofer Group and 18% by Bank Leumi Le-Israel B.M.

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

The Group operates through an array of investee companies, mainly, in the chemicals, shipping, energy, transportation and advanced technology sectors. 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's strategy is designed to adapt its business structure to the commercial situation existing in Israel and globally, while expanding the Group's geographic dispersion and its penetration into additional activity areas in flourishing markets.

This Directors' Report is submitted as part of the financial statements for the period ended September 30, 2008, 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 2007.

The financial data, including the comparative figures, are prepared in accordance with International Financial Reporting Standards (IFRS) – see Section 10).

FINANCIAL POSITION

– The total assets, as at September 30, 2008, amounted to about \$16,233 million, compared with about \$12,481 million, as at September 30, 2007.

– The working capital as at September 30, 2008 amounted to about \$3,160 million, compared with working capital of about \$1,220 million as at September 30, 2007.

– The balance of the long-term investments and other receivables as at September 30, 2008 amounted to about \$1,357 million, compared with about \$666 million as at September 30, 2007.

– The long-term liabilities, as at September 30, 2008, amounted to about \$7,962 million, compared with about \$5,626 million, as at September 30, 2007.

– The total sales for the nine months ended September 30, 2008 amounted to about \$16,418 million, compared with about \$7,006 million, for the period ended September 30, 2007. In the third quarter of the period of the report, the total sales amounted to about \$6,078 million compared with about \$3,449 million in the corresponding quarter last year.

  In 2007, the balance sheets of Oil Refineries Ltd. and Inkia Energy Ltd. were consolidated, commencing from the third quarter of the year.

FINANCIAL POSITION (Cont.)

– The capital attributable to the Corporation's equity holders' as at September 30, 2008 amounted to about $2,030 million, compared with $1,434 million as at September 30, 2007, and about $1,477 million as at December 31, 2007.

CHANGES IN THE INVESTMENT PORTFOLIO

A. Agreement with Israel Petrochemical Enterprises Ltd. regarding Joint Control over Oil Refineries Ltd:

1. On August 3, 2008, the Corporation signed an additional letter of undertaking, regarding the signing of an agreement for joint control over ORL, in favor of Israel Petrochemical Enterprises (hereinafter – "Petrochemical") and Petroleum Capital Holdings Ltd. (hereinafter – "Petroleum", Petrochemical and Petroleum jointly – "the Petroleum Group"), 100% of whose issued shares are held by Petrochemical (hereinafter – "the Third Letter of Undertaking"). The Third Letter of Undertaking replaced the Corporation's previous letters of undertaking, dated May 10, 2007 and June 1, 2008, regarding the signing of an agreement for joint control over ORL, which were cancelled, and to which were attached two draft agreements for joint control over ORL, which will become valid subject to the conditions detailed below.

2. The Third Letter of Undertaking was signed following the agreement dated June 24, 2008, between Petrochemical and ORL (hereinafter – "the COL Agreement"), according to which, among other things, subject to the existence of certain conditions stated in the COL Agreement, Petrochemical would sell and transfer to ORL all its shares in Carmel Olefins Ltd. (hereinafter – "COL"), which constitute 50% of COL's issued share capital, in exchange for an issuance of ORL shares, constituting at that time 20.53% of ORL's issued share capital (hereinafter – "the Share Issuance"). The Third Letter of Undertaking and the attached draft agreements govern the joining of the Petrochemical Group to the control over ORL, upon fulfillment of certain conditions and according to various alternatives, prior to and after the closing of the COL Agreement, and in the event that the COL Agreement is cancelled by both parties or terminated due to non-compliance with the terms for its entry into effect, or due to its breach by one or both of the parties, while the parties do not have any claims for its enforcement (each of the above – "Annulment of the COL Agreement").

3. The Corporation and the Petrochemical Group have mutually undertaken that in the event that the COL Agreement is executed according to its terms, and the Petrochemical Group receives all the approvals required by law to enter into the joint agreement of control over ORL (including control according to the Government Companies Order (Declaration of Vital State Interests in Oil Refineries Ltd.), 2007) (hereinafter – "the Required Authorizations"), up to and not later than five years commencing from one day prior to the date of the Share Issuance (hereinafter – "the Five-Year Period"), then an agreement for joint control over ORL will be signed between the parties (hereinafter – "the Control Agreement After Execution of the COL Agreement") according to the draft attached to the Third Letter of Undertaking, and whose principles are similar to the agreements previously formulated between the parties, as follows:

   3.1 The definition of core control shares in ORL: the core control shares in ORL will comprise 50.25% of the issued and paid-up share capital of ORL after the Share Issuance. The Corporation will hold 55% of the core control shares in ORL, while the Petrochemical Group will hold 45% of the core control shares in ORL. The remaining shares held by the parties will be considered free shares, except regarding their voting power that will be subject to the provisions applicable to the voting of the core control shares.

   3.2 Freeze Period: the agreement establishes a freeze period of six months, commencing from the signing date of the control agreement (hereinafter – "The Freeze Period"), during which the core control shares may not be transferred by either of the parties.

A. Agreement with Israel Petrochemical Enterprises Ltd. regarding Joint Control over Oil Refineries Ltd: (Cont.)

3.3 Right of First Refusal: the parties will have a Right of First Refusal to purchase and to receive the transfer of all the core control shares offered for sale by the other party (hereinafter – "the Right of First Refusal"). It is hereby clarified that a party to the control agreement will be permitted to sell and/or transfer all, but not part of, the core control shares it holds at that time. The Right of First Refusal will also apply, with certain changes, in the case where a lien on the core control shares (if such a lien exists) is realized by the holder of the lien on these shares. It was agreed, as part of the Right of First Refusal that a change in the control of Petrochemical or of the Corporation, as defined in the draft agreement and subject to the existence of certain conditions stated in the draft agreement, will confer on the other party the right to purchase the core control shares in ORL of the party in which a change in control was made, at the average market price in the 60 business days prior to the notification regarding the change in control, and with an added premium of 15%. The said right will inure to the Corporation in a case of the transfer of the direct control in Petrochemical, or a change is made in the direct or indirect holdings of the controlling shareholders in Petrochemical, in such a way that David Federman and/or his kin, on the one hand, and Yaakov Gottenstein and/or Alex Pesel, on the other hand, will cease being the holders of the direct or indirect controlling interest in Petrochemical, provided that the core control shares in ORL constitute the main assets of Petrochemical, that is, Petrochemical has no other assets (except for the core control shares, cash and cash equivalents), the value of which according to Petrochemical's last financial reports exceeds US$200 million.

3.4 Right to Join: each party will have the right to join a sale of core control shares of the other party, provided that the Right of First Refusal has not been exercised (hereinafter – "the Right to Join").

3.5 Buy Me – Buy You Mechanism: at the end of the Freeze Period, each party to the agreement will have the right to exercise a buy me – buy you mechanism regarding the core control shares, whereby it may offer the other party to purchase all the core control shares held by the other party at a price stated in the proposal, or to sell to the other party all the core control shares it holds at the above stated price (hereinafter – "the Buy Me – Buy You Mechanism").

3.6 Appointment of Directors: the parties to the control agreement will undertake, as part of the agreement, to use all their voting power at ORL's General Meetings, to select or appoint the members of ORL's Board of Directors, in the following manner: ORL's Board of Directors will comprise of 11 members (including 2 external directors), while the Corporation will recommend the appointment of 5 directors and the appointment of one external director, and Petrochemical Group will recommend the appointment of 4 directors and the appointment of one external director (hereinafter – "the Right for Full Representation on the Board of Directors"). It was determined, among other things, that the right of representation of the Corporation and the Petrochemical Group on ORL's Board of Directors, as stated above, will also relate to all committees of ORL's Board of Directors, excluding the Audit Committee and, to the extent possible, also to the Boards of Directors of all ORL's subsidiaries and associated companies.

3.7 Appointment of Executives and Advisors: subject to the provisions of law, the parties, in their capacity as shareholders in ORL, will act so that the appointment of ORL's CEO, the accountants, auditors and attorneys of ORL, ORL's subsidiaries and to the extent possible, of ORL's associated companies, will be made with agreement of the parties (hereinafter – "the Right to Participate in Appointment of Executives"). In addition, subject to the provisions of law, appointment of the Chairman of ORL's Board of Directors will be made based on the Corporation's recommendation.

CHANGES IN THE INVESTMENT PORTFOLIO (Cont.)

A. Agreement with Israel Petrochemical Enterprises Ltd. regarding Joint Control over Oil Refineries Ltd: (Cont.)

3.8 Voting on Specific Issues: the parties will agree in advance on the manner of voting on several issues, if and to the extent they are placed on the day's agenda and are brought for decision at the General Meetings of ORL's shareholders, and in the absence of agreement the vote will be decided by an agreed-to arbitrator. It was also determined that the parties will act in order to amend ORL's Articles of Association so that decisions on those matters that are within the authority of ORL's Board of Directors will be transferred for the decision of the General Meeting of ORL's shareholders or that a decision in respect thereof will require a special majority of 75% of all present directors. Following is a list of these issues: (a) the entry of ORL or of any of its subsidiaries into new business areas; (b) the issuance of shares or other securities by ORL or by its subsidiary; (c) a change in the Articles of Association of ORL and/or of any of its subsidiaries and/or of any of its investee companies; (d) the merging or split-up or reorganization of ORL or of any of its subsidiaries; (e) transactions not in the ordinary course of ORL's business or of any of its subsidiaries or of any of its investee companies with an interested party; (f) the appointment of ORL's auditors; (g) dissolution or freezing of legal proceedings in ORL or in any of its subsidiaries and/or in any of its investee companies; and (h) a material sale or purchase transaction of ORL.

3.9 Dividend Policy: the parties to the control agreement will act subject to any applicable law, so that ORL and its subsidiaries will adopt a dividend policy, according to which at least 75% of the annual distributable income will be distributed every year.

3.10 Agreement Period: the control agreement will become valid opon its signing and will end (a) according to its terms, or (b) from the time that one party ceases to hold at least 10% of ORL's share capital.

3.11 Additional Provisions: the agreement includes additional provisions customary in these types of agreements, including confidentiality, remedies, non-waiver of rights, arbitration, jurisdiction, etc.

4. So long as the COL Agreement has not been implemented, the Corporation and the Petrochemical Group have mutually undertaken that if all required approvals are received up to and not later than May 10, 2009 (hereinafter – "the Determining Date"), then at the request of the Petrochemical Group an agreement for joint control over ORL will be signed between the parties (hereinafter – "the Agreement for Control Prior to Execution of the COL Agreement"), according to the draft attached to the Third Letter of Undertaking, the control agreement of which is similar to the Agreement for Control After Execution of the COL Agreement, subject to the following changes:

4.1 The Call Option: Petroleum shall be given a call option to purchase and receive from the Company 230 million shares of ORL (hereinafter – "the Realization Shares"), where the price of the Realization Shares is the cost price of purchasing the core control shares purchased in the sale tender from the State of Israel on February 19, 2007, i.e., the amount of NIS 3.3 per share and a total of NIS 759 million, plus CPI linkage differences and interest at the annual rate of 5% and charged semi-annually from the acquisition date and after deduction of dividends distributed plus CPI linkage differences and interest as stated (hereinafter – "the Call Option"). The Call Option will be frozen so long as the COL Agreement has not been executed, and will be cancelled *ab initio* upon execution of the COL Agreement. The Call Option may be exercised by Petroleum, if at all, only from the date the COL Agreement is cancelled and up to the earlier of the Determining Date or up to 120 days from receiving the required authorizations.

CHANGES IN THE INVESTMENT PORTFOLIO (Cont.)

A. Agreement with Israel Petrochemical Enterprises Ltd. regarding Joint Control over Oil Refineries Ltd: (Cont.)

4.2 So long as the Call Option has not been exercised: (a) the Petrochemical Group will not be entitled to the Right of First Refusal; (b) the Corporation will not be entitled to the Right to Join; (c) the Buy Me – Buy You Mechanism will not apply; (d) the Right for Full Representation on the Board of Directors will not apply – instead, ORL's Board of Directors will consist of 9 members (including 2 external directors), while the Company will recommend the appointment of 5 directors, Petroleum will recommend the appointment of 2 directors and the recommendation regarding the appointment of the two external directors will be made in agreement between the parties; and (e) the Right to Participate in the Appointment of Executives will not apply. It is clarified that the rights specified above will become valid at the time of the exercise of the Call Option, if and when it is exercised, or when the Control Agreement After Execution of the COL Agreement is signed.

4.3 On the date that the COL Agreement is realized and the Control Agreement After Execution of the COL Agreement is signed, it will replace and annul the Control Agreement Prior to Execution of the COL Agreement, if and when signed and, among other things, the Call Option will be void *ab initio*.

5. Should annulment of the COL Agreement occur prior to the Determining Date for reasons not connected to an act, omission or activity of Petrochemical, and the Agreement for Control Prior to Execution of the COL Agreement has not yet been signed, then in such a case, and notwithstanding that stated in Section 1 above, the Corporation's Letter of Undertaking dated June 1, 2008 will be reinstated and will be effective together with the attached draft agreement of joint control over ORL (hereinafter – "the Second Letter of Undertaking"), and the Third Letter of Undertaking and the attached draft agreements will be considered null and void. According to the Second Letter of Undertaking, the Petrochemical Group is entitled, among other things, to transfer its rights according to the Second Letter of Undertaking to a third party which has obtained the required approvals up to the Determining Date, subject to the Corporation's Right of First Refusal.

6. On the signing date of the Third Letter of Undertaking, Petroleum signed an irrevocable letter of authorization (hereinafter – "the Letter of Authorization") that authorizes the Corporation to vote on its behalf at ORL's General Meetings for its holding of 235 million ORL shares (hereinafter – "the Authorization Shares"). The Letter of Authorization will become valid one day prior to the date of the Share Issuance and will be valid until earlier of the time of signing the Control Agreement After Execution of the COL Agreement or until the end of the Five-Year Period (hereinafter – "the Intermediate Period"). During the Intermediate Period Petroleum will not sell the Authorization Shares unless at the time of their sale the Petrochemical Group has given the Corporation an additional letter of authorization pertaining to the number of ORL shares that is identical to the number of shares to be sold, as stated, and in such a case the Letter of Authorization covering the shares sold will be void. In case the Authorization Shares are pledged as a security in favor of third parties that have provided credit to Petrochemical or Petroleum, the Letter of Authorization will be subject to the rights of the holder of the pledge, and in the case of realization of the pledge and the sale of the Authorization Shares to an unrelated third party (subject to the Corporation's Right of First Refusal), the Letter of Authorization will become void, and the Petroleum Group will issue an additional Letter of Authorization to the Corporation covering an identical number of shares as the sold shares.

7. According to the provisions of the Third Letter of Undertaking, the Corporation will be entitled to the Right of First Refusal even prior to the signing of an agreement of joint control over ORL. Until the signing of the control agreement, the Corporation will be entitled to use its control power in ORL based on its discretion and without any limitations deriving from its shares in ORL, and during the Intermediate Period – also under the Letter of Authorization.

8. ORL is conducting negotiations with IPE for purposes of changing certain details in the COL merger transaction and in accordance therewith discussions are being held between the Corporation and IPE in connection with making revisions to the Third Letter of Undertaking

CHANGES IN THE INVESTMENT PORTFOLIO (Cont.)

B. In August and October 2007, the Corporation's Board of Directors approved participation in a venture for operation of electric-powered vehicles in the amount of $100 million, which will be concentrated, among other things, in the first stage, in establishment of a charging network for electric-powered vehicles (out of the amount of $200 million to be invested in the venture in the first stage by various investors), in exchange for about 33.33% of the rights in the vehicle venture. In January 2008, agreements were signed relating to the investment in the venture between the Corporation, additional investors and the initiator. During the period of the report, the amount of about $23 million was transferred to Better Place. The Corporation's Board of Directors decided to continue investing additional amounts in Better Place until the amount of the Corporation's investment reaches $100 million, subject to a work plan and milestones.

C. In January 2008, a company in the ICL Group acquired the main assets and activities of a business unit of the German Henkel Group, in the area of water treatment for a cash price of €60 million (about $90 million) subject to adjustments.

D. Regarding an investment in ZIM in the amount of about $246 million subsequent to the balance sheet date – see the Section on ZIM.

E. Regarding a memorandum of understanding to invest in Tower subsequent to the balance sheet date – see the Section on Tower.

RESULTS OF OPERATIONS

The Corporation finished the period of the report with income allocable to its equity holders of about $632 million, compared with income of about $112 million in the corresponding period last year. The Corporation finished the third quarter of the period of the report with income of about $253 million, compared with income of about $4 million in the corresponding quarter last year.

Set forth below are the factors which 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 $1,828 million compared with income of about $380 million in the corresponding period last year.

– Oil Refineries Ltd. (hereinafter – "ORL") finished the period of the report with income of about $74 million. The Corporation included the results of ORL commencing from the third quarter of 2007.

– ZIM Integrated Shipping Services Ltd. (hereinafter – "ZIM") finished the period of the report with a loss of about $132 million, compared with income of about $33 million in the corresponding period last year.

– Inkia Energy Ltd. (hereinafter – "Inkia") finished the period of the report with income of about $9 million. The Corporation included the results of Inkia commencing from the third quarter of 2007.

– Tower Semiconductor Ltd. (hereinafter – "Tower") finished the period of the report (in accordance with IFRS) with a loss of about $49 million, compared with a loss of about $105 million in the corresponding period last year.

– In the period of the report, the net financing expenses amounted to about $429 million, compared with about $187 million in the corresponding period last year.

The sharp increase in the financing expenses in the period of the report derived mainly from consolidation of the results of ORL and Inkia, which were not included in the corresponding period last year, an increase in the scope of the Group's liabilities, and a decline in the exchange rate of the U.S. dollar against the shekel by the rate of about 11%, compared with only a small decline in the dollar–shekel exchange rate in the corresponding period last year, and is after offset of the revaluation to fair value of financial instruments through the statement of income (in accordance with IFRS).

RESULTS OF OPERATIONS (Cont.)

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

– Israel Chemicals Ltd. finished the third quarter of the period of the report with income of about $779 million, compared with income of about $160 million in the corresponding quarter last year.

– Oil Refineries Ltd. finished the third quarter of the period of the report with a breakeven in income, compared with income of about $18 million in the corresponding quarter last year.

– ZIM Integrated Shipping Services Ltd. finished the third quarter of the period of the report with a loss of about $61 million, compared with income of about $18 million in the corresponding quarter last year.

– Inkia Energy Ltd. finished the third quarter of the period of the report with income of about $0.5 million, compared with income of about $4 million in the corresponding quarter last year.

– Tower Semiconductor Ltd. finished the third quarter of the period of the report (pursuant to IFRS) with income of about $18 million, compared with a loss of about $33 million in the corresponding quarter last year.

  In the third quarter, Tower realized income of about $147 million due to an arrangement of Tower's loans with the Corporation and the banks and the merger transaction with Jazz. In addition, Tower realized a loss of about $121 million due to a write-down of the equipment.

– In the third quarter of the period of the report, the net financing expenses amounted to about $188 million, compared with about $163 million in the corresponding quarter 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:

	Nine months ended September 30		Three months ended September 30	
	2008	**2007**	**2008**	**2007**
	$ Millions		**$ Millions**	
ICL	956	199	407	84
ZIM	(131)	32	(61)	18
Oil Refineries Ltd.	33	16	–	16
Inkia Energy Ltd.	9	4	1	4
Tower	(60)	(36)	(38)	(14)

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 $1,828 million, compared with income of about $380 million in the corresponding period last year.

ICL finished the third quarter of the period of the report with income of about $779 million, compared with income of about $160 million in the corresponding quarter last year.

The sales of the ICL Group in the period of the report amounted to about $5,786 million, compared with about $2,890 million in corresponding period last year – an increase of about 100%.

The increase in sales in the period of the report stems mainly from an increase in the selling prices of most of the ICL Group's products and an increase in the quantities of potash and phosphate rock sold.

– The conditions in the global agricultural market have a close connection with the demand for fertilizers. Over the past few years there has been an upward trend in the global consumption of grains (cereals, rice, soybean, maize, etc.). The said growth stems from the natural population growth and the change in the composition of food consumption (increased consumption of meat) owing to a rise in the standard of living mainly in the developing countries. In addition, in light of the sharp rise in energy prices, environmental considerations and the interest of the western countries in reducing the dependency on imported fuel, there is presently an increasing tendency worldwide to switch to production of fuel types made from agricultural products (bio-fuels). These trends have led to a decrease in the inventories of seeds to historically low levels. According to international publications, the grain inventory levels have dropped to 17.3% of the annual grain consumption. The decline in the inventories of seeds has caused an increase in the planting of seeds worldwide, as well as to a trend of increasing the crop yield per agricultural field unit, mainly by means of increased application of fertilizers.

  The global credit crisis that broke out at the end of the period is causing a worldwide slowdown, a decrease in commodity prices and a lack of available credit, which impacts the ability to obtain credit for purposes of current activities. In light of ICL's current financial position and its high positive cash flows, it does not anticipate a credit problem.

  The said credit crisis also affects the prices of the agricultural commodities, as well as the demand for fertilizers and fertilizer prices. The economic atmosphere prevailing in the financial markets has resulted over the past few months in sharp declines in the grain prices from their peak levels, both due to a fear of a price collapse as well as owing to the credit bottleneck. The global economic slowdown, financial crisis and credit difficulties, along with the drop in the grain prices are acting to create pressure on the demand for fertilizers, which is manifest in a considerable fall in demand, commencing from the second half of September 2008. The trend of declining demand continued in October and November 2008 and may well continue in the upcoming months as well. The expected decline in demand, as stated, derives from, among other things, the fact that the final quarter and the first quarter of the year are quarters wherein the demand for fertilizers is relatively low compared with the last two quarters.

  During the last few weeks, in the period subsequent to the balance sheet date, a decline in the prices of the phosphate fertilizers is visible, which stems from the accumulation of inventories in the distribution channels and the expectation on the part of the customers of additional price declines. There has also been a significant drop in the marine shipping prices and the sulfur prices, which constitutes a raw material in the production process of the phosphate fertilizers. On the other hand, at this stage there has been no decrease in the potash prices, despite the decline in demand.

  As a result of the decline in demand in the fertilizers' market, a number of competitors gave notice of their intention to reduce the manufacture of potash and phosphate fertilizers. As at the date of this report, based on the competitors' publications, the scope of the worldwide reduction in potash production in 2008 comes to more than 2 million tons, which is almost 4% of the global production.

At this stage, ICL is unable to assess the expected effect of the events described above or the length of the period during which such consequences are expected to impact the fertilizers' sector.

In ICL's estimation, notwithstanding the current crisis, the basic data with respect to the demand patterns for fertilizers in the long run has not changed significantly. It is anticipated that, over the long run, the increased demand for grains, along with the worldwide decline in the grain inventories, will create pressure that will act to increase demand. The decline in demand, in the short run, as stated above, could have an even more deleterious effect on the global inventory of seeds, which would then be expected to lead to rises in the grain and fertilizer prices later on.

– ICL Industrial Products is influenced, to a large extent, by the level of activity in the electronics and oil and gas exploration markets. The financial crisis plaguing the global markets since shortly before the end of the period, along with the sharp decline in fuel prices and the availability of customer credit, are expected to cause a downturn in demand for some of the products produced by ICL Industrial Products. On the other hand, ICL Industrial Products is expected to benefit from a decrease in the prices of some of the raw materials, a decline in energy prices and a devaluation of the shekel exchange rate vis-à-vis the dollar. At this stage, ICL is unable to estimate the ultimate impact of the events described above or the length of the period during which such consequences are expected to impact the industrial products' sector.

– The activities of ICL Performance Products are influenced by competition in some of the target markets and in Europe they are also impacted by changes in the exchange rate. Due to the fact that most of the raw materials used by ICL Performance Products are products from the fertilizers' area and to a certain extent also energy-intensive products, ICL Performance Products is impacted by the happenings in these markets. In the period of the report, ICL Performance Products succeeded in raising prices in compensation for the increases in the raw materials and other inputs.

– As at the date of the report, the impact of the worldwide credit crisis on the sector's sales and income is low. In ICL's estimation, the worldwide credit crisis is expected to impact the level of sales in the performance products' sector, although at this stage it is difficult to assess its scope or the length of the period of its consequences.

– As a practical result of the situation described above, ICL is preparing to increase the Group's savings and efficiency measures.

– The marine shipping expenses constitute a significant component of the expenses of ICL Fertilizers. Since the beginning of 2007, the marine shipping prices have increased sharply and have reached all-time highs. Towards the end of 2007, the marine shipping prices started to fall. During the period of the report, there were fluctuations in the marine shipping expenses.

The estimates in this section regarding future trends are "forward-looking information" and there is no certainty that they will ultimately be realized, when and at what rate. The said estimates may change due to movements in the world and local markets, particularly in ICL's manufacturing sites and the target markets for ICL's products, including, among other things, changes in the levels of the supply and demand, product prices, commodities and grains, input prices, shipping and energy costs, which may be impacted by the actions to be taken by the governments, manufacturers and consumers. There may also be a possible impact from the situation in the financial markets, including, changes in the rates of exchange, credit situation and interest costs.

In the period of the report, the results of Supresta and the water desalination activities of the Henkel company were included, which were not included in corresponding period last year.

The gross profit in the period of the report reached about 54% of sales, compared with about 37% of sales in the corresponding period last year.

The improvement in the gross profit in the period of the report compared with the corresponding period last year stems, mainly, from an increase in the selling prices of most of the Group's products, along with an increase in the quantities of the potash and phosphate rock sold. On the other hand, there was an increase in the prices of most of the inputs and raw materials, including energy prices, along with an increase in the shekel expenses in dollar terms as a result of the strengthening of the shekel against the dollar, which partially offset the improvement in earnings.

The selling and marketing expenses in the period of the report increased by about $214 million compared with the corresponding period last year, due to an increase in fertilizer sales and an increase in the bulk marine shipping prices.

The administrative and general expenses increased in the period of the report, mainly due to the strengthening of the shekel and the euro against the dollar.

The rate of the operating income to the total sales came to about 38%, compared with about 18% in the corresponding period last year. The improvement stems mainly from the sharp increase in the selling prices of potash, phosphate fertilizers and phosphate rock, as well as a significant improvement in the profitability of ICL Performance Products.

The financing expenses increased over the corresponding period last year by about $44 million mainly due to the strengthening of the shekel vis-à-vis the dollar, an increase in the net average balance, and the revaluation to fair value of financial instruments.

In the period of the report, the non-recurring expenses (that are not in the ordinary course of business) amounted to about $82 million, including mainly:

1. A provision for decline in value of inventory in the fertilizers' segment, in the amount of about $40 million, as a result of a decline in the sulfur prices.

2. A provision in respect of employee benefits as part of the early retirement plan in the industrial products' sector, in the amount of about $24 million.

3. A provision in respect of VAT refunds overseas is dispute in the performance products' sector, in the amount of about $18 million.

ICL's cash flows from operating activities in the period of the report amounted to about $1,404 million, compared with about $425 million in the corresponding period last year.

In the third quarter of the period of the report, ICL's sales amounted to about $2,178 million, compared with about $1,044 million in the corresponding quarter last year. The increase stems mainly from an increase in revenues in the fertilizers' sector as a result of higher prices of potash and other fertilizers. In addition, there was an increase in the sales of ICL Performance Products and ICL Industrial Products.

The gross profit was about 57%, compared with about 39% in the corresponding quarter last year.

The rate of the operating income to total sales came to about 44%, compared with about 20% in the corresponding quarter last year.

The net income in the third quarter of the period amounted to about $779 million, compared with about $160 million in the corresponding quarter last year.

OIL REFINERIES LTD.

ORL completed the period of the report with earnings of about $74 million, compared with about $124 million in the corresponding period last year.

ORL completed the third quarter of the period of the report with a breakeven, compared with income of about $18 million in the corresponding quarter last year.

The total sales in the period of the report amounted to about $6,981 million, compared with about $3,668 million in the corresponding period last year. The increase in the total sales derived mainly from an increase in the prices of the fuel products and from an increase in the quantities sold. 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 $936 compared with $573 in the corresponding period last year. In the period of the report, there was an increase in fuel consumption in the local market of about 4%, compared with the corresponding period last year. With respect to consumption of refined fuel products, there was an increase of about 3%, which was offset by a decline of about 2% in the consumption of crude oil, further to the trend of switching over to natural gas.

The main factor impacting the results in the area of the refining activities is the refining margin. The refining margin is the difference between the revenues from sale of the products' basket produced by ORL and the cost of the raw materials ORL acquires (mainly crude oil) at the refinery gate. The prices of crude oil and fuel products throughout the world are subject to wide fluctuations and are set by, among other things, worldwide supply and demand and are also affected by geopolitical events that are not directly related to production of the fuel oil, however, are perceived by the markets as having a possible impact on future production. The amount of the refining margin is a result of the market forces working at two different levels: one – supply and demand with respect to crude oil; and two – supply and demand with respect to the end products.

Set forth below is data and the impacts on the refining margin ($ per ton):

	January–September		January–March		April–June		July–September	
	2008	2007	2008	2007	2008	2007	2008	2007
Refining margin	45.6	57.0	27.1	49.5	66.8	82.4	43.6	37.3
Impact of application of the derivatives method (under IFRS)	(0.5)	4.0	5.9	18.0	17.6	(9.4)	(23.9)	4.3
Impact of purchase and sale timing differences	(14.4)	(10.2)	(15.3)	7.3	(35.5)	(25.0)	6.8	(12.0)
Provision for decline in value of inventories	11.0	–	–	–	–	–	32.4	–
Net margin	**41.7**	**50.8**	**17.7**	**74.8**	**48.9**	**48.0**	**58.9**	**29.6**

The decline in the refining margins in the Mediterranean Sea area and in ORL derived from speculative demand in the crude oil market as a result of the crisis in the financial markets, which gave rise to an increase in oil prices that was not accompanied by a corresponding increase in the fuel products.

As a result of wide fluctuations in the prices of fuel and its accompanying products, ORL recorded a loss from decline in value of inventory in the amount of about $69 million as at September 30, 2008, which was offset mainly by the inventory hedges in the futures' market, in the amount of about $26 million. The loss reflects the difference between the cost of the inventory and its net realizable value. This decline in value was reflected in the refining margins in the third quarter.

In the third quarter of the period of the report, the total sales amounted to about $2,625 million, compared with about $1,289 million in the corresponding quarter last year.

The increase stems mainly from an increase in product prices.

OIL REFINERIES LTD. (Cont.)

The gross profit in the third quarter of the period of the report amounted to about $82 million, compared with about $63 million in the corresponding quarter last year.

In the third quarter of the period of the report, the net financing expenses amounted to about $52 million, compared with about $21 million in the corresponding quarter last year. The increase stems mainly from the scope of the credit and was partially offset by a decline in the interest rate, changes in the fair value of the derivatives on the debentures and a decrease in the value of the securities' portfolio. The expenses were partly offset by the effect of the upward revaluation of the shekel on the shekel and linked debentures.

On November 6, 2007, ORL's Board of Directors decided to adopt a strategic plan aimed at achieving rapid growth by ORL and increasing its competitive capabilities in the upcoming years, while making a massive investment in both increasing the share of high value-added products in ORL's products' mix, as well as in the areas of environmental control, safety and security and higher operational reliability, in the estimated scope of about $1.1 billion.

Subsequent to the balance sheet date, in the framework of implementation of the strategic plan for 2007, ORL's Board of Directors approved construction of a hydrocracker (hereinafter – "the Facility"), which will produce middle distillates (diesel oil and kerosene), with a total investment of $670 million. The Facility is expected to be operational in 2011.

In the third quarter of 2008, there were significant fluctuations in the prices of crude oil and its related products, currency exchange rate and financial markets in and outside of Israel. During the quarter, ORL's management discussed these changes and made decisions intended to conform the manner of ORL's operations to the market's variable conditions.

The price of crude oil, which stood at about $97 per barrel at the beginning of the year, rise to about $140 per barrel at the beginning of the third quarter and fell to $94 per barrel at the end of the third quarter. This trend of declining prices also continued after the end of the period of the report. As at the approval date of the financial statements, the price of crude oil was about $50 per barrel.

At the same time, there was also a decline in the prices of the fuel products produced by ORL from the crude oil and sold by it.

An increase in the crude oil prices causes an increase in the amount of working capital needed by ORL to finance the purchase thereof, and an increase in the value of the inventory on ORL's books, whereas a decrease in the crude oil prices causes a decrease in the amount of working capital needed by ORL to finance it activities and a decline in the value of the inventory on ORL's books. Over time, ORL's economic exposure due to changes in crude oil prices is hedged, in part, by hedging transactions executed by ORL in the futures and derivatives market.

In November 2008, Standard & Poor's Maalot (hereinafter – "Maalot") announced that it downgraded ORL's debentures (Series A, B and C as well as non-marketable debentures) from AA/Stable to A/Negative.

In an Immediate Report submitted by ORL, it emphasized that at the time of issuance of the debentures (Series A–C) by ORL in December 2007, in the framework of which Maalot gave such debentures a rating of AA/Stable, ORL took into account, as did Maalot, ORL's investment forecast for the upcoming years as part of implementation of its strategic plan and, accordingly, based on the terms of the debentures (Series A-C), the main debenture repayments will be in 2012 and thereafter, at which time ORL is expected to have large cash flows from the investments.

ORL further noted that since the rating was received in November 2007 and up to the present time, positive changes have taken place.

OIL REFINERIES LTD. (Cont.)

ORL reported that it thoroughly examined its steps when preparing its strategic plan, and a re-examination of the directions selected indicated that the changes taking place in the markets strengthen these directions. In its plan, ORL gave expression to all its strong points, namely, personnel at one of the highest technological levels in the world, integration of the petrochemical industry with the refining industry, excellent strategic location with good access to a wide range of crude oil types and proximity to the growing markets, along with strong modern infrastructures in its central location in Haifa.

ORL indicated that, in its estimation, the strategic plan it decided on and the large investments it is scheduled to make, as well as the organizational changes and efficiency measures it is presently taking, will strengthen it compared with its position at the time the rating was determined, on the eve of issuance of the debentures in 2007.

Subsequent to the balance sheet date, there were changes in the rate of exchange of ORL’s functional currency vis-à-vis the shekel along with sharp changes in the prices of crude oil and its related products:

Rate of exchange – since the end of the period of the report and up to the approval date of the financial statements there was a devaluation of about 17% in the shekel–dollar exchange rate. The effect of the devaluation on the Group’s business results, based on the linked balance sheet as at September 30, 2008, is estimated to be net financing income in the amount of about $21 million.

Price of crude oil and its related products – since the end of the period of the report and up to the approval date of the financial statements there was a decline of about 40% in the price of crude oil and its related products, based on ORL’s policy regarding exposure to and economic hedging against changes in the inventory prices, pursuant to which ORL does not hedge basic operating inventory of 600 thousand metric tons. ORL estimates that since the inventory balance as at September 30, 2008 was used in October and November, the impact of the above-mentioned decrease on the inventory balance amounted to about $106 million, which was partially offset by inventory hedging transactions in the amount of about $32 million and, therefore, it amounted to about $74 million.

Prices of naphtha and LPG – since the end of the period of the report and up to the approval date of the financial statements there were significant declines in the prices of naphtha and LPG (hereinafter – “the Feedstock Materials”) and in the price of the polymers sold by Carmel Olefins. In the estimation of Carmel Olefins, the changes in the prices of the Feedstock Materials and price of price of the polymers sold by it, and since the inventory balance as at September 30, 2008 was used mainly in October and November, the impact of the above-mentioned decline on the inventory balance in Carmel Olefins’ balance sheet amounts to about $32 million.

Regarding the merger transaction between Carmel Olefins Ltd. (a proportionately consolidated subsidiary of ORL) and ORL, see Section “Events Occurring during the Period of the Report and Thereafter”.

ZIM INTEGRATED SHIPPING SERVICES LTD.

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

	Nine months ended September 30		Three months ended September 30	
	2008	**2007**	**2008**	**2007**
	$ Millions		**$ Millions**	
Revenues from shipping and accompanying services	3,400	2,753	1,187	1,051
Operating expenses and cost of services	(3,347)	(2,536)	(1,187)	(953)
Operating depreciation	88	(68)	(31)	(25)
Gross profit (loss)	(35)	148	(31)	73
Administrative and general expenses	(124)	(102)	(42)	(35)
Operating earnings (loss)	(106)	57	(23)	46
Tax benefit (taxes on income)	41	(8)	20	(2)
Net income (loss) for the period	(132)	33	(61)	18

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

	Nine months ended September 30		Three months ended September 30	
	2008	**2007**	**2008**	**2007**
	$ Millions		**$ Millions**	
Cash provided by (used in) operating activities	(128)	50	(72)	51
Acquisition of ships, investments and property, plant and equipment	(454)	(653)	(266)	(227)
Proceeds from sale of ships, investments and property, plant and equipment	144	139	130	25
Cash provided by financing activities	481	439	193	98
Total depreciation and amortization	(100)	(76)	(34)	(28)

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

	As at September 30	
	2008	**2007**
	$ Millions	
Total financial liabilities	2,205	1,618
Total monetary assets	391	274
Deferred tax liabilities, net	134	186
Shareholders' equity	736	629
Total assets	3,594	2,899
Payments on account of construction of ships	736	468

Brief description of ZIM's results:

ZIM's net loss in the period of the report amounted to about $132 million, compared with income of about $33 million in the corresponding period last year.

ZIM's revenues in the period of the report amounted to about $3,400 million, compared with about $2,753 million in the corresponding period last year (an increase of about 23.5%). The increase in the total revenues stems, mainly, from an increase in quantities, an increase in shipping fees and earnings from the subsidiaries. In the period of the report, the average shipping price per container rose by about 9.9% and the quantities shipped increased by 10.7%.

In the period of the report, ZIM transported about 1,936 thousand TEUs, compared with about 1,749 thousand TEUs in the corresponding period last year.

In the period of the report, there was an increase in ship leasing expenses (including volume leases) at the rate of about 27% due to an increase in the number of leased ships, an increase in fuel expenses at the rate of about 78% and an increase in the expenses relating to cargo handling at the rate of about 28% to compared with the corresponding period last year.

In the period of the report, there was an increase in the administrative and general expenses at the rate of about 21%, compared with the corresponding period last year, stemming mainly from an upward revaluation of the shekel against the dollar. The financing expenses increased significantly in the period of the report, compared with the corresponding period last year, and stem mainly from hedging transactions with respect to fuel and the results of currency hedges.

In the period of the report and in the third quarter of the year, ZIM recorded a net capital gain in the amount about $25 million, from sale of a ship.

The net financing expenses in the period of the report amounted to about $83 million, compared with about $27 million in the corresponding period last year. The increase stems mainly from hedging transactions with respect to fuel prices and currency rates.

ZIM finished the third quarter of the period of the report with a loss of about $61 million, compared with income of about $18 million in the corresponding quarter last year.

The total revenues in the third quarter amounted to about $1,187 million, compared with income of about $1,051 million in the corresponding quarter last year (an increase of about 13%). The increase in the total revenues stems, mainly, from an increase in quantities, an increase in shipping fees and earnings from the subsidiaries. In the third quarter of the period of the report, the quantity transported amounted to about 659 thousand TEUs, compared with about 611 thousand TEUs in the corresponding quarter last year.

In the third quarter of the period of the report, there was an increase in the fuel expenses at the rate of about 79% and an increase in ship leasing expenses of about 26%.

The net financing expenses in the third quarter of the period of the report amounted to about $61 million, compared with about $30 million in the corresponding quarter last year. The financing expenses in the third quarter include the amount of about $34 million deriving from revaluation of hedging transactions with respect to fuel prices, currency rates and interest rates.

– In February 2008, the Audit Committees and Boards of Directors of ZIM and the Corporation approved extension of the lease period, on market terms, for periods not in excess of 5 years, with respect to the ships leased to ZIM by companies owned by interested parties in the Corporation, where the last lease period does not exceed 5 years.

– In March 2008, ZIM entered into an undertaking with a third party (unrelated) for sale of one ship having a capacity of 2,450 TEUs (which was acquired by ZIM in July 2007) at the price as it is denominated in the acquisition contract in Japanese yens (back-to-back) and a re-lease thereof for a period of 15 years. ZIM has an option to acquire the ship at the end of the period, for a price of $13.5 million or, alternatively, to extend the lease period by an additional 5 years, at the conclusion of which it will acquire the ship for a price of $1.

– In May 2008, ZIM signed agreements for leasing of two ships having a capacity of 4,860 TEUs each from a third party (unrelated). The ships were leased by ZIM for a period of 7 years at a daily lease fee of $32,587 per ship.

– In June 2008, ZIM published a proposal to its shareholders to acquire ZIM shares by means of a rights offering, based on a value for the company of $500 million, such that every 2 shares of ZIM will confer the right to acquire one share. The Corporation responded affirmatively to the proposal and invested the amount of about $246 million in exchange for 10,393,788 shares of ZIM. After the issuance, the rate of Corporation's holdings in ZIM increased from about 98.4% to about 99.1%.

– In 2007, ZIM signed an agreement for sale of 2 ships having a capacity of 6,350 TEUs each on the date of their receipt from the shipbuilder. Subsequent to the balance sheet date, one of the two ships was received and was delivered to purchasers in exchange for the amount of about $111 million. The capital gain realized by ZIM amounted to about $33 million (about $25 million after taxes).

– In July 2008, ZIM notified that it joined (through its subsidiary, ZPL) a group interested in participating in a tender for development of a containers' terminal in the Ennore port in India. The said containers' terminal will hold about 1.5 million TEUs and the estimated cost of its construction is about $300 million. The terminal is expected to commence its operations in 2011 and the concession period for its operation will be 30 years. ZPL's will hold a 22% interest in the group. The group to which ZPL belongs reached the RFP stage (request for submission of bids) together with 5 other groups. Participation of all the groups in the RFP is still subject to a security approval from the government of India.

– On September 10, 2008 Standard & Poor's Maalot announced that it has downgraded ZIM's debentures from AA/Stable to A/Negative.

The serious problems that have arisen recently in the global credit market, along with the collapse of several very large financial entities in the United States and in other countries, plus the decline in value of the assets, together with other negative economic indicators, pose significant concerns regarding continuation of the trend and of a global economic recession.

Alongside the said global financial crisis, over the last several months there have been a number of other developments in the shipping market, mainly, a sharp increase in fuel prices, which was not fully reflected by an increase in the shipping prices, and a high supply of ships compared with only a moderate demand, a fact which led to a decline in utilization of the ships. In the past month, fuel prices declined drastically, and together with the excess supply, the shipping prices continued to fall.

The developments in the shipping market described above gave rise to a significant erosion in ZIM's income, mainly in the trade between Asia and Northern Europe, where not only were there no increases in the shipping fees, which should have offset the increased fuel prices, but there were even sharp decreases in the shipping fees, which had a materially adverse impact on the income from this trade.

In light of the sharp decreases in the rates of increase in demand in most of the trade channels and due to the excess supply and the enormous quantity of ships scheduled to enter into the market in the upcoming period, ZIM estimates that the trend of large declines, both in the shipping fees and in the utilization of the ships, will continue.

If the difficult market conditions in the shipping market described above continue, as well as in the financial markets, it could have an adverse impact on ZIM's business results, compliance with its financial covenants, credit rating, ability to raise funds and credit terms. ZIM is negotiating with the banks that provided it credit in connection with changing or waiving certain financial covenants for an agreed to period of time. In principle, Israel Corporation is prepared to invest monies in ZIM during 2009, if and to the extent necessary, based on its discretion, in a total amount of up to $150 million. Israel Corporation's readiness, as stated, is against the background of, among other things, the market conditions as stated.

ZIM INTEGRATED SHIPPING SERVICES LTD. (Cont.)

That stated above in connection with the trends in the shipping and financial markets constitutes "forward-looking information" based on ZIM's assessments on the date of this report. These assessments may not ultimately be realized, in whole or in part, or may be realized in a different manner, due to, among other things, factors not under ZIM's control, such as, changes in fuel prices, the demand for oversea transport and the supply of ships, along with changes in the financial markets.

Pursuant to its strategic plan, ZIM planned large increases in 2009–2012, both in its shipping capacity as well as in the quantities shipped. ZIM believes that its strategic plan cannot be implemented under the current market conditions and, therefore, it is preparing a plan that relates to the current market conditions.

As a result of its assessments regarding the trends in the shipping market, as set forth above, ZIM is taking action aimed at coping with the expected situation and reducing the losses, this being, among other things, by means of contracting its activities, saving on expenses, personnel, harbors and containers, route changes, structural changes with respect to operation of the ships and the ship inventory (by means of returning leased ships to their owners), and consideration of entering into partnerships with strategic partners.

Subsequent to the balance sheet date, there were changes in the rate of exchange of ZIM's functional currency compared with the shekel, along with sharp changes in fuel prices.

Rate of exchange – since the end of the period of the report and up to a time proximate to the approval date of the financial statements, there was a devaluation of about 17% of the shekel vis-à-vis the dollar. The impact of the devaluation on ZIM's business results, based on the linked balance sheet as at September 30, 2008, is estimated to be net financing income of about $24 million.

Investments in financial instruments through the income statement – the fuel price – since the end of the period of the report and up to a time proximate to the approval date of the financial statements, there was a decrease of about 40% in the fuel prices. In ZIM's estimation, the impact of the above-mentioned decline on the balance of its fuel hedging transactions is estimated to be net financing expenses of about $70 million.

INKIA ENERGY LTD.

Inkia finished the period of the report with income of about $8.9 million, and after eliminating the financing expenses to Israel Corporation its income amounted to about $18.7 million. Inkia's operations have been included in the consolidated financial statements commencing from the third quarter of 2007.

Inkia's total revenues in the period of the report amounted to about $233 million.

Inkia's EBITDA for the period of the report amounted to about $55.2 million (including a proportionate amount of the EBITDA of an associated company).

Inkia finished the third quarter of the period of the report with income of about $0.5 million and after eliminating the financing expenses to Israel Corporation its income amounted to about $3.1 million.

Inkia's EBITDA for the third quarter of the period of the report amounted to about $12.4 million (including a proportionate amount of the EBITDA of an associated company). Inkia's total revenues in the third quarter of the period of the report amounted to about $81 million.

As at the balance sheet date, Inkia's net debt (excluding the loan from Israel Corporation) amounted to about $291 million.

INKIA ENERGY LTD. (Cont.)

Set forth below are the main factors affecting Inkia's income in the period of the report:

1. Seasonality – Inkia is impacted by weather conditions based on the electricity production technology it uses in the countries in which it operates. Some of the power stations in South America operate based on hydro-electric power. Most of the period of the report is a dry period in South America and this particular period was even dry than the multi-year average, which had an adverse impact on the results. In Central America the power stations operate based on generators, and most of the period of the report was a rainy period and, once again, had an adverse impact on the results.

2. The fluctuations in the fuel prices had an adverse impact on the results of some of the power plants.

3. Change in the tax laws in Bolivia in connection with adjustment for inflation gave rise to an increase in the tax expenses.

4. In addition to the fact that the period in Peru was a dry period, the demand for gas increased beyond that anticipated and beyond the supply capacity of the gas pipeline of the company in Peru, such that Inkia was required to purchase the gas deficiency (the difference between the production capacity and the sale commitment) at very high prices.

– In July 2008, Kallpa Generation SA (hereinafter – "Kallpa"), a wholly owned subsidiary of Inkia, signed an agreement with the German company, Siemens, for construction of an additional gas turbine, which is expected to be placed into service in the first half of 2010, having an estimated cost of about $100 million. The additional turbine will join the existing turbine located on the site and a turbine that is under construction that will be placed into service in the first half of 2009. After completion of the turbines, the capacity on the site will reach about 570 megawatts.

– In July 2008, Inkia issued debentures to institutional investors in Peru in the amount of about $88 million, which were rated in Peru with a rating of AA–. The amount was used for repayment of part of a loan from Israel Corporation.

– Inkia requested from the Securities Authority in Peru (hereinafter – "the Authority") an exemption from the requirement of making a tender offer, to the extent such requirement applies to it under Peru law, in connection with a certain amount of its indirect holdings in a public Peru company, Edegel. In addition, Inkia requested waiver certificates in connection with making a tender offer from the other shareholders of Edegel, as well as from the shareholders of Generandes, a company in which Inkia also has indirect holdings and regarding which the possible requirement to make a tender offer arose. (See also Section 5.2.2.15 of the "Description of the Corporation's Business" in the Periodic Report as at December 31, 2007).

  During the second quarter of the year, Inkia succeeded in obtaining waiver certificates from the shareholders of Generandes and, therefore, under Peru law it will not be required to make a tender offer with respect to its holdings in Generandes. During the third quarter, Inkia received a response from the Authority wherein it rejects Inkia's request for an exemption from making a tender offer in connection with its holdings in Edegel.

  Inkia has appealed the decision pursuant to its right under Peru law.

  Due to the worldwide crisis, which intensified in the third quarter of 2008, Inkia expects that the financing costs will increase, which will place a strain on Inkia's current operations. Nonetheless, Inkia does not anticipate liquidity problems or a need to take out additional loans in the short run.

  That stated above constitutes "forward-looking information" based on Inkia's assessments as at the date of this report. The said assessments may not ultimately be realized, in whole or in part, or may be realized in a different manner, due to, among other things, factors not under Inkia's control.

TOWER SEMICONDUCTOR LTD.

Tower finished the period of the report (pursuant to IFRS) with a loss of about $49 million, compared with a loss of about $103 million in the corresponding period last year.

Tower finished the third quarter of the period of the report (pursuant to IFRS) with income of about $18 million, due to income from the loan arrangement with the Corporation and the banks. In addition, Tower wrote down the property, plant and equipment by the amount of compared with a loss of about $120 million.

In the period of the report, Tower's sales increased and amounted to about $174 million, compared with about $169 million in the corresponding period last year, whereas its cost of sales declined in the current period and amounted to about $210 million, compared with about $211 million in the corresponding period last year

– In May 2008, Tower signed an agreement for acquisition of shares of Jazz Technologies (hereinafter – "Jazz"), a leading company in the area of production of products having significant analogue components. Pursuant to the agreement, Tower will acquire shares of Jazz in a share swap transaction based on a value of Jazz's equity of $40 million, where each Jazz share will be converted against 1.8 Tower shares. In September 2008, the merger transaction was completed.

– On August 19, 2008, a memorandum of understanding was signed between Tower and Bank Leumi Ltd. and Bank Hapoalim Ltd. (hereinafter – "Banks") and the Corporation, for restructuring Tower's debts in such a manner that there will be a significant decline in the scope of its debts to the Banks and to the Corporation. In September 2008, the merger transaction was completed. The highlights of the arrangement are set forth below:

A. Highlights of the Arrangement with the Banks:

1. $200 million of Tower's debt to the Banks was converted into capital notes, exercisable for shares of Tower. The credit agreements signed with the Banks are to be amended accordingly. The conversion was made on the basis of a price per share of $1.42, which represents two times the average closing price per share on NASDAQ during the ten trading days prior to August 7, 2008 (which was the date of Tower's first public announcement regarding its debt restructuring negotiations).

2. The repayment to the Banks of the remaining principal of the loans after the conversion (approximately $200 million) was postponed until September 2010.

3. The interest payments of Tower to the Banks pursuant to the credit agreements, originally due in the four quarters beginning September 30, 2008, were postponed and will be added to the debt principal, the payment of which is postponed such that it will begin in September 2010.

4. The banks waived Tower's compliance with financial covenants regarding the last two quarters of 2008.

B. Highlights of the Arrangement with the Corporation:

1. $50 million of Tower's debt to the Company was converted into capital notes, exercisable for shares of Tower. The said debt includes a loan of $30 million and $20 million of debentures (principal and accrued interest) that were issued to the Corporation in 2005. The debt conversion was on the basis of the same price per share of the said debt conversion of the Banks.

2. The Corporation invested $20 million in Tower against issuance of capital notes exercisable for 28,169,014 shares of Tower, where the number of shares was calculated based on the average price per Tower share on NASDAQ in the ten trading days prior to August 7, 2008 (which was the date of Tower's first public announcement regarding its debt restructuring negotiations).

B. Highlights of the Arrangement with the Corporation: (Cont.)

3. The Corporation undertook to provide Tower, from time to time, for a period ending on December 31, 2009, amounts the sum of which will not exceed \$20 million. The said amounts will be invested in Tower in order to assist it with its cash flows in certain cases and in circumstances in which Tower will need such amounts. The said aggregate amount may be reduced by the amount Tower will manage to raise during the said period. In exchange for each payment by the Corporation, as aforesaid, Tower will issue to the Corporation capital notes, exercisable for shares of Tower. The conversion will be based on the lower of: (i) the average price per share on NASDAQ in the last ten trading days prior to the date on which each mentioned payment is made, or (ii) the share price as stated in Section 2 above.

C. After entry of the agreement into effect and after acquisition of shares of Jazz, the Corporation's share dropped (after the conversion of capital notes) to about 30% of Tower's share capital and the Corporation realized a capital gain in the amount of about \$25 million.

SOURCES OF FINANCING FOR THE CORPORATION AND THE HEADQUARTERS COMPANIES

As at September 30, 2008, the total financial liabilities of the Corporation and of the wholly owned and controlled headquarters companies (hereinafter – "the Headquarters Companies") amounted to about \$2,421 million. The impact of the fair value of transactions for replacement of these liabilities reduces them by about \$185 million.

As at the balance sheet date, the investments of the Corporation and of the Headquarters Companies in liquid assets amounted to about \$337 million. The investments are mainly in shekel and dollar deposits, shekel and CPI-linked treasury bills, Israeli and non-Israeli corporate bonds and shares traded in and outside of Israel.

The Corporation replaced short-term loans, as follows: about \$150 million, for a long-term loan repayable in a single payment in September 2013 and another loan, in the amount of about \$30 million, which is repayable in 10 semi-annual installments commencing from November 2009.

The Corporation raised about \$139 million by means of increasing the debentures (Series 6) and about \$92 million through the issuance of debentures (Series 8) bearing unlinked interest at the rate of 6.8% per year repayable in 4 equal annual payments commencing from December 31, 2011.

In the period of the report, the Corporation executed interest and currency SWAP transactions in connection with long-term liabilities, in the aggregate scope of about \$475 million, and hedges against the currency risk in shekel liabilities relating to short-term transactions, in the amount of about \$243 million. The Corporation also acquired hedges against increases in the Consumer Price Index in the amount of about \$167 million. The Corporation entered into transactions hedging against changes in the variable Libor interest rate, in the overall scope of \$600 million, and an additional amount in a contingent transaction, in the amount of about \$330 million, exercisable in about one more year.

As at September 30, 2008, the aggregate scope of the shekel exposure of the Headquarters Companies is about \$100 million. The scope of the exposure to the Consumer Price Index is about \$424 million and to a change in the Libor interest rate about \$906 million.

As at the signing date of the financial statements, the shekel exposure of the Headquarters Companies decreased by about \$30 million and the exposure to changes in the index decreased by about \$60 million.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT

Commencing with the financial statements for the first quarter of 2008, the Corporation prepares its financial statements in accordance with international financial reporting standards (IFRS).

Upon adoption of IFRS, commencing from January 1, 2008, the Corporation's functional currency is the U.S. dollar. Up to December 31, 2007, in accordance with Israeli GAAP, the shekel was the functional currency in the Corporation's financial statements. Accordingly, accounting exposures were created between the exchange rate of the shekel and the exchange rate of the other currencies in which the Corporation operates. As in the past, the Corporation's exposures are measured for economic purposes in reference to the dollar, while commencing from 2008 the accounting exposure is also measured in reference to the dollar.

Pursuant to IFRS, in order for a transaction in financial instruments to be considered an accounting hedge transaction, a number of conditions must be fulfilled, including conditions with respect to the instrument's designation, compliance with strict documentation requirements and high effectiveness of the hedge at the beginning and during the entire course of the hedge.

Changes in the fair value of derivative financial instruments that do not fulfill the conditions required for an accounting hedge, are recorded immediately on the statement of income in every period, however the results of the hedged instrument are recorded on the statement of income on the accrual basis.

The transactions executed by the Corporation in financial instruments in order to reduce exposure, as stated above, do not meet the hedge conditions provided in the international standards, even though their economic purpose is purely as a hedge. Therefore, in the transition to IFRS, the said financial instruments are measured at fair value and the changes in the fair value are recorded immediately on the statement of income.

At the present time, we are in the midst of a global financial crisis. The consequences of the crisis include, collapse of the capital markets in and outside of Israel, fall of financial institutions worldwide, creation of a credit bottleneck throughout the world, and the entry of many countries into a recession.

There have also been additional developments in the Israeli economy, such as, significant fluctuations in the various currency exchange rates vis-à-vis the shekel as well as an increase in the rate of inflation.

The present situation could have significant impacts on the business results of the Group companies, their liquidity, financial covenants and credit ratings as well as their ability to raise the funds needed for financing their operations.

Regarding the impact of the developments in the investee companies, the sections covering each individual company must be read separately.

Corporation's Consolidated Derivative Positions as at September 30, 2008

	Par value in $ millions		Fair value in $ millions	
	Long	**Short**	**Long**	**Short**
Hedging changes in variable LIBOR interest rates on dollar loans				
Over One Year				
CAP options for fixed interest liability	550	–	7.6	–
FLOOR options for fixed interest liability	–	550	–	(7.2)
CAP options for fixed interest liability – recognized for accounting purposes	60	–	1.2	–
FLOOR options for fixed interest liability – recognized for accounting purposes	–	60	–	(0.9)
IRS transactions for fixed interest liability	522	–	1.3	–
IRS transactions for fixed interest liability – recognized for accounting	300	–	3.7	–
Option for IRS transactions for fixed interest liability	–	489	–	(5.3)
SWAP to dollar liability with variable interest from dollar liability with fixed interest	–	106	–	2.5
SWAP to dollar liability with fixed interest from dollar liability with variable interest	125	–	(1.5)	–
Up to One Year				
CAP options for fixed interest liability	300	–	–	–
FLOOR options for fixed interest liability	–	300	–	(0.1)
IRS transactions for fixed interest liability	25	–	–	–
Hedging changes in exchange rate and interest rate swaps on loans – over one year				
SWAP to dollar liability with variable interest from index-linked liability with fixed interest	–	1,314	–	316.9
SWAP to dollar liability with fixed interest from index-linked liability with fixed interest	112	–	50.6	–
SWAP to dollar liability with variable interest from liability with unlinked shekel interest	–	232	–	18.2
SWAP to dollar liability with fixed interest from foreign currency liability with fixed interest – recognized for accounting	88	–	(10.7)	–
Hedging changes in the exchange rates on cash flows – over one year future contract – euro/dollar	–	26	–	1.0
Contract for acquisition of differences above the CPI hedging an increase in the CPI in respect of debentures issued				
Over one year	105	–	3.7	–
Up to one year	83	–	3.7	–

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

	Par value in $ millions		Fair value in $ millions	
	Long	**Short**	**Long**	**Short**
Hedging changes in exchange rates on cash flows – up to one year				
Shekel/Dollar				
Forward contract	318	341	(2.6)	6.9
Call options	–	59	–	(0.5)
Put options	–	134	–	3.7
Euro/Dollar				
Forward contract	205	–	2.6	–
Call options	177	–	(1.9)	–
Put options	177	–	11.4	–
Yen/Dollar				
Forward contract	11	–	–	–
Call options	12	–	0.2	–
Put options	12	–	(0.2)	–
Euro/Pound				
Call options	65	–	0.8	–
Put options	65	–	(2.4)	–
Hong Kong Dollar/Dollar				
Forward contract	–	77	–	–
Call options	–	22	–	(0.2)
Put options	–	22	–	–
Forward Contract				
Chinese Yuan/Dollar	–	73	–	(2.9)
Shekel/Euro	4	–	–	–
Dollar/Canadian Dollar	11	17	0.6	(0.7)
SWAP transactions for hedging the price of raw materials – fuel and oil at a price fixed in advance				
Forward contract – up to one year	270	203	(9.6)	(7.0)
Purchase option – up to one year	19	–	1.9	–
Sale option – up to one year	19	–	(2.2)	–
Forward contract – over one year	9	–	(0.3)	–
Purchase option – over one year	6	–	0.7	–
Sale option – over one year	6	–	(0.8)	–
SWAP transactions for hedging sale margins				
Up to one year	82	74	(3.0)	(8.0)
Over one year	32	18	10.0	0.2

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

Set forth below is an update with respect to sensitivity as at September 30, 2008 (consolidated):

The Corporation is a holding company. The functional currency of most of the investee companies is the dollar and, therefore, the measurement is made with reference to the dollar.

Sensitivity to changes in interest linked to the CPI:

	Profit (loss) from changes $ millions Rise of 10%	Profit (loss) from changes $ millions Rise of 5%	Fair value $ millions	Profit (loss) from changes $ millions Fall of 5%	Profit (loss) from changes $ millions Fall of 10%
Instrument Type					
Debentures	66	34	(2,372)	(34)	(69)
SWAP transactions from index to variable dollar*	(34)	(18)	322	18	36
SWAP transactions from index to fixed dollar*	(4)	(2)	44	2	4
Total	28	14	2,006	(14)	(29)

Sensitivity to changes in the Libor interest:

	Profit (loss) from changes $ millions Rise of 10%	Profit (loss) from changes $ millions Rise of 5%	Fair value $ millions	Profit (loss) from changes $ millions Fall of 5%	Profit (loss) from changes $ millions Fall of 10%
Instrument Type					
Long term loans from banks – fixed interest	9	5	(469)	(4)	(9)
Debentures	3	2	(135)	(2)	(4)
SWAP transactions from index to fixed dollar interest*	3	1	51	(2)	(3)
SWAP transactions from foreign currency to fixed dollar interest – recognized for accounting purposes	1	–	(11)	–	(1)
IRS transactions from variable to fixed dollar interest*	4	2	3	(2)	(4)
IRS transactions from variable to fixed dollar interest – recognized for accounting purposes*	5	3	4	(3)	(5)
COLLAR transactions limiting dollar interest margin*	5	3	–	(4)	(8)
COLLAR transactions limiting dollar interest margin – recognized for accounting purposes*	1	–	–	–	(1)
CAP and SWAPTION options limiting dollar interest	2	1	(5)	(2)	(3)
Total	32	16	(557)	(18)	(36)

* 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 to changes in the CPI:

	Profit (loss) from changes	Profit (loss) from changes	Fair value	Profit (loss) from changes	Profit (loss) from changes
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Marketable securities	8	5	85	(5)	(8)
Debentures	(224)	(124)	(2,373)	124	224
SWAP transactions from index to variable dollar*	138	82	315	(84)	(136)
SWAP transactions from index to fixed dollar*	10	5	51	(5)	(10)
Acquisition of index differentials	18	9	7	(9)	(18)
Total	(50)	(23)	(1,915)	21	52

Sensitivity to changes in exchange rates:

	Profit (loss) from changes	Profit (loss) from changes	Fair value	Profit (loss) from changes	Profit (loss) from changes
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Shekel/USD					
Instrument Type					
Cash and cash equivalents	(13)	(7)	141	7	16
Marketable securities	(22)	(12)	243	13	27
Short-term deposits and loans	(3)	(2)	38	2	4
Other receivables	(41)	(21)	448	23	50
Inventory	(9)	(5)	104	5	12
Long-term deposits and loans	(12)	(7)	137	7	15
Credit from banks and others	16	8	(176)	(9)	(20)
Trade and other payables	38	20	(427)	(22)	(46)
Other credit balances	24	12	(261)	(14)	(29)
Liabilities for employee rights	24	13	(259)	(14)	(29)
Long-term loans from banks	5	3	(60)	(3)	(7)
Debentures	239	125	(2,624)	(138)	(292)
SWAP transactions from index and shekel to variable dollar interest*	(172)	(90)	342	99	210
SWAP transactions from index to fixed dollar interest *	(16)	(9)	44	7	16
Acquisition of index differentials	(1)	–	7	–	1
Currency options	(6)	(3)	3	5	11
Forward	(15)	(8)	5	9	19
Total	38	17	(2,295)	(23)	(42)

* 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 to changes in exchange rates: (Cont.)

EURO/USD

	Profit (loss) from changes $ millions Rise of 10%	Profit (loss) from changes $ millions Rise of 5%	Fair value $ millions	Profit (loss) from changes $ millions Fall of 5%	Profit (loss) from changes $ millions Fall of 10%
Instrument Type					
Cash and cash equivalents	(5)	(2)	52	3	6
Short-term deposits and loans	(6)	(3)	65	3	7
Other receivables	(50)	(26)	545	29	59
Long-term deposits and loans	(2)	(1)	17	1	2
Credit from banks and others	11	6	(122)	(6)	(14)
Trade and other payables	19	10	(208)	(11)	(23)
Other credit balances	15	7	(156)	(8)	(17)
Liabilities for employee rights	12	6	(130)	(7)	(14)
Long-term loans from banks	5	3	(50)	(3)	(5)
Currency options	(13)	(7)	10	8	18
Forward currency contract	(16)	(8)	3	9	19
Total	(30)	(15)	26	18	38

£\USD

	Profit (loss) from changes $ millions Rise of 10%	Profit (loss) from changes $ millions Rise of 5%	Fair value $ millions	Profit (loss) from changes $ millions Fall of 5%	Profit (loss) from changes $ millions Fall of 10%
Instrument Type					
Short-term deposits and loans	(3)	(2)	38	2	4
Other receivables	(5)	(2)	51	3	6
Trade and other payables	1	–	(6)	–	(1)
Other credit balances	2	1	(18)	(1)	(2)
Liabilities for employee rights	4	2	(43)	(2)	(5)
Total	(1)	(1)	22	2	2

Sensitivity to changes in prices of marketable securities:

	Profit (loss) from changes $ millions Rise of 10%	Profit (loss) from changes $ millions Rise of 5%	Fair value $ millions	Profit (loss) from changes $ millions Fall of 5%	Profit (loss) from changes $ millions Fall of 10%
Instrument Type					
Marketable securities	61	31	626	(31)	(61)

* 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 to changes in shekel interest rates:

	Profit (loss) from changes	Profit (loss) from changes	Fair value	Profit (loss) from changes	Profit (loss) from changes
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Debentures	7	3	(251)	(3)	(7)
SWAP transactions from index to variable dollar*	(6)	(3)	19	3	7
	1	–	(232)	–	–

Sensitivity to changes in fuel prices (mainly in ORL):

	Profit (loss) from changes	Profit (loss) from changes	Fair value	Profit (loss) from changes	Profit (loss) from changes
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Inventories	58	29	577	(29)	(58)
SWAP transactions hedging the refining margin	(5)	(2)	(1)	2	5
COLLAR transactions	2	1	–	(1)	(2)
Brent futures contracts	8	3	(17)	(4)	(8)
Total	63	31	559	(32)	(63)

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29 – Adoption of International Financial Reporting Standards (IFRS). The Standard provides that companies subject to the provisions of the Israeli Securities Law, 1968 and that report in accordance therewith, are to prepare their financial statements pursuant to IFRS commencing with reporting periods beginning on January 1, 2008 (financial statements for the first quarter of 2008).

The statements for the first nine months and third quarter of 2007 and for the full 2007 year were restated based on IFRS, as comparative data.

Upon the transition to reporting in accordance with the international reporting standards, the Corporation's functional currency was changed to the dollar.

The impact of the transition on the Corporation's financial position, results of operations and cash flows are detailed in Note 10 to the financial statements.

DISCLOSURE REGARDING THE APPROVAL PROCESS OF THE FINANCIAL STATEMENTS

The Corporation's Board of Directors is responsible for the overall control of the Corporation. As at the signing date of the financial statements, the Board of Directors consists of 11 members, 8 of which have accounting and financial expertise.

The Corporation's Board of Directors has appointed a Finance Committee, which discusses the financial statements, as well as the Report of the Corporation's Board of Directors, together with the Corporation's senior management and its CEO, Mr. Nir Gilad, and its CFO, Mr. Avisar Paz. The Finance Committee has 5 members, one of which is an external director. All the members of the Finance Committee have accounting and financial expertise.

The Finance Committee, examines the financial statements by means of a detailed presentation by the Corporation's CEO and CFO, along with the material issues in the financial report, including transactions not in the ordinary course of business, if any, the significant assessments and critical estimates applied in the financial statements, the reasonableness of the data, the accounting policies applied and the changes therein, plus a review of the financial standards and application of proper disclosure principles in the financial statements and the accompanying information. The Finance Committee also examines various aspects of the risk management and control, both those reflected in the financial statements (such as the report on financial risks), as well as those impacting the reliability of the financial statements. Where necessary, the Finance Committee requires that comprehensive surveys be presented to it in connection with matters having a material impact.

The Corporation's auditors relate to issues arising in the Committee's deliberations and, if applicable, they present the main findings revealed in the course of the review. Approval of the Corporation's financial statements involves a number of meetings, as needed: first, several days prior to approval of the financial statements, an in-principle and comprehensive discussion of the material reporting issues is held by the Finance Committee and, thereafter, shortly before the approval date of the statements by the Board of Directors, the Board holds a discussion focusing mainly on the results themselves. At these meetings of the Board of Directors the auditors are invited to participate. As a result of the discussions, after the Board of Directors is satisfied that the financial statements properly reflect the Corporation's financial position and the results of its operations, it approves the financial statements.

EVENTS OCCURRING DURING THE PERIOD OF THE REPORT AND THEREAFTER

1. In January 2008, Mr. Nir Gilad was appointed as to serve as Chairman of ICL's Board of Directors.

2. In April 2008, Mr. Eli Goldschmidt was appointed as Deputy CEO of communications and regulation.

3. In May 2008, Mr. Zvi Itzkovitch ceased serving as a director of the Corporation.

4. In May 2008, Messrs. Ron Moskovitch and Ze'ev Nehari were appointed as directors of the Corporation.

5. In the period of the report, 5,300 options for shares of the Corporation were issued by the trustee to 2 employees of a subsidiary (of which 5,000 options to an officer). (See also Note 20B(3) to the financial statements as at December 31, 2007.

6. On June 24, 2008, ORL signed an agreement with Israel Petrochemicals Enterprises Ltd. (hereinafter – "IPE"), which was approved by the General Meeting of ORL's shareholders on August 13, 2008. The main points of the agreement are as follows:

    A. On the closing date of the transaction, IPE will sell to ORL all the shares it owns in Carmel Olefins, constituting 50% of Carmel Olefins' issued share capital, such that following the acquisition ORL will hold all of Carmel Olefins' issued share capital. In consideration for the shares of Carmel Olefins acquired, ORL will issue ordinary shares to IPE, constituting (after the issuance and without dilution), 20.53% of ORL's issued share capital and its voting rights.

6. (Cont.)

B. On the closing date of the transaction, ORL will sell to IPE all the IPE shares it owns, constituting 12.29% of IPE's share capital, in consideration for $40 million.

C. As a precondition for closing the transaction after complying with all the other preconditions and prior to issuance of the shares to be issued to IPE as stated above, the Company will distribute a dividend to its shareholders in the amount of $60 million (hereinafter – "the First Dividend"). In addition, on the closing date the transaction, the Company's Board of Directors will resolve to distribute an additional dividend of $100 million (hereinafter – "the Second Dividend") and the shares issued will participate in such distribution.

D. Closing of the transaction is subject to meeting a number of preconditions by December 31, 2008, including, among others, the receipt of regulatory approvals including approval of the Supervisor of Restrictive Business Practices and receipt of a permit by IPE pursuant to the Government Companies Order (Declaration of the State's Vital Interests in Oil Refineries Ltd.), 2007 (hereinafter – "the Interests Order") to purchase and hold the issued shares (as required by the Law); receipt of approvals from the competent authorities in accordance with law from each of the companies for execution of the transaction and the operations involved therein; approvals from third parties required according to agreements, undertakings, licenses and approvals of Carmel Olefins detailed in the agreement; receipt of approval from the debenture holders of IPE or their trustee; confirmation that that during the period from the date the agreement is signed and until the closing date, no events occurred as a result of which representations of ORL or representations of IPE, as relevant, were incorrect and which cause in the aggregate a reduction of the value of the Carmel Olefins shares acquired or the value of the shares issued, as relevant, in an amount exceeding $50 million; and payment of the first dividend. As at the date of the report, IPE had not yet received a permit pursuant to the Interests Order or an approval from the Taxes Authority in accordance with Section 103 of the Income Tax Ordinance, nor have approvals been received from some of the third parties.

E. If all the preconditions are not met by December 31, 2008, the agreement will terminate. If all the preconditions are met and on the same date an application for approving a distribution pursuant to the agreement by one of the parties is pending before the court, the last date for complying with the preconditions will be postponed to March 31, 2009. Each of the dates stated above may be extended with the agreement of the parties, by a resolution adopted by their Boards of Directors.

On September 28, 2008, ORL and IPE signed an addendum to the agreement permitting completion of the agreement even without receipt of a control permit by IPE pursuant to the Interests Order (hereinafter – "the Control Permit"). The main points of the agreement are as follows:

F. ORL will declare the First Dividend within 3 business days of the date on which all the preconditions are fulfilled except for receipt of the Control Permit.

G. The completion date will fall on December 31, 2008 or such earlier date as will be agreed between the parties, subject to the fulfillment up to such date of all the preconditions, except for receipt of the Control Permit, subject to the possibility of extending the dates as stated in section E above.

H. On the completion date, ORL will issue to IPE 216,445,781 shares, which together with the shares held by IPE at that time, directly and indirectly, will constitute 23.99% of ORL's issued share capital (hereinafter – "the Immediate Issuance Shares").

EVENTS OCCURRING DURING THE PERIOD OF THE REPORT AND THEREAFTER (Cont.)

6. (Cont.)

I. IPE will be entitled to issuance of 300,227,180 shares, constituting the balance of the issuance shares (hereinafter – "the Deferred Issuance Shares") subject to receipt of the Control Permit, renewal of the restraint of trade approval, and approval of the Stock Exchange for issuance of the balance of the Deferred Issuance Shares, to the extent they will have expired, and subject to agreement of the parties to which IPE's rights were pledged in accordance with the agreement, as will be required.

J. At the time of issuance of the Deferred Issuance Shares, IPE will be entitled to receive payment from the Company equal to the amount which IPE would have been entitled to receive as dividends if the Deferred Issuance Shares, had it been issued to it on the completion date, together with the income therefrom (hereinafter – "the Dividend Adjustment Amounts). ORL will deposit the above-mentioned amounts, upon distribution of each dividend, in an earmarked deposit to be managed by the attorneys of IPE and ORL (hereinafter – the Earmarked Deposit). The Earmarked Deposit will not be considered property of ORL, and ORL will not have any right therein and it will not be responsible in any way for its management, investment, balance or value. In addition, protection provisions will apply to the Deferred Issuance Shares in the event of execution of any capital transaction in ORL's shares.

K. The amount of the Second Dividend will in an amount to be determined such that the amount that will be distributed as a dividend together with the amount to be deposited in respect thereof in the Earmarked Deposit will be equivalent to $100 million.

L. IPE is entitled to instruct ORL to issue the Deferred Issuance Shares to a trustee on behalf of IPE and to transfer to the trustee the Dividend Adjustment Amounts at any time prior to receiving the Control Permit, subject to obtaining the approval of the competent authorities for issuance of the shares to a trustee and subject to the preconditions set forth in section I above, with the exception of receipt of the Control Permit. IPE will also be entitled to instruct ORL to issue the Deferred Issuance Shares and to transfer the Dividend Adjustment Amounts to a buyer as instructed by IPE.

M. Up to the issuance date of the balance of the Deferred Issuance Shares to IPE and/or to the trustee or a buyer as stated in section L above, at any time that the rate of IPE's holdings in ORL's shares drops below 23%, ORL will issue to IPE, subject to the valid approval of the private placement by the Tel-Aviv Stock Exchange and subject to the agreement of the parties to which the rights of IPE are pledged under the agreement, to the extent required, shares such that after the issuance the rate of holdings of IPE in ORL's shares, directly or indirectly, will be 23.99% of ORL's issued share capital. IPE will be entitled to exercise its aforesaid right even if the rate of its holdings in ORL's shares will be higher than 23%.

N. Except to the extent that they were changed by the addendum to the agreement, all the agreement's provisions will continue to apply to the parties without any change.

As at the signing date of the financial statements, ORL is negotiating with IPE for purposing of changing certain details in the transaction – changes that will not have a material impact on the transaction and its conditions vis-à-vis ORL, according to the requirements and limitations raised by the competent authorities, with the intention of completing the transaction by the end of this year.

7. On April 10, 2008, the Ministry of Environmental Protection sent a letter to Carmel Olefins claiming that on April 9, 2008 black smoke was emitted from the company's polypropylene plant for cumulative periods of over six minutes an hour which, according to the Ministry, constitutes a breach of the provisions of the Personal Order. As a result of the alleged event, Carmel was summoned to a hearing on May 1, 2008 at the offices of the District Director of the Ministry of Environmental Protection.

7. (Cont.)

It is noted that Carmel Olefins disagrees with the emission provisions in the event of a malfunction included in the Personal Order (which include a provision whereby smoke emission may not exceed a cumulative period of six minutes an hour), since it contends that the provisions are not practicable and Carmel Olefins is unable to comply with them. Carmel Olefins is working with the Ministry of Environmental Protection to change the emission provisions in the event of a malfunction.

It is also noted that in the hearing held on August 19, 2007 following a similar event of smoke emission, Carmel Olefins was informed that any further deviation from the provisions of the Personal Order will result in an investigation by the Ministry of Environmental Protection.

On May 19, 2008 Carmel Olefins received the protocol of the hearing regarding the incident, including a demand "to immediately shut down the operations at the monomer plant until fulfillment of all the requirements according to "best available technique" (hereinafter – "BAT"), including the backup required to prevent malfunctions, to the satisfaction of the Ministry and the Haifa District Municipal Association".

On May 25, 2008 Carmel Olefins shut down the installations (hereinafter – "the Temporary Shutdown"). In the framework of the Temporary Shutdown, Carmel Olefins carried out various operations to ensure that BAT in Lapid will be operated in optimum processes, including backups required to prevent malfunctions. Carmel Olefins estimates that after the Temporary Shutdown, it is in compliance with all the requirements presented by the District Manager regarding Lapid. However, Carmel Olefins emphasized to the District Manager that this will not solve the matter of the emission provisions in the event of a malfunction and requested the appointment of a professional committee to study the matter.

On July 6, 2008, a hearing was held for Carmel Olefins with the District Manager following the District Manager's allegations of failure to comply with the provisions of the Personal Order and generation of unreasonable air pollution regarding a smoke emission event from the Carmel Olefins plant on June 21, 2008. In the minutes of this hearing, the District Manager ordered Carmel Olefins, among other things, to shut down one of its polyethylene plants until tests are completed and conclusions drawn and ordered that the tests be performed by a German expert within two weeks from the date of the hearing. The District Manager further ordered that the German expert's report be submitted and that his conclusions be applied within one month of the hearing. Carmel Olefins implemented the requirements set forth in the minutes of the hearing and shut down one of its polyethylene plants, which was reopened after the test thereof on July 18, 2008.

8. On May 12, 2008, a hearing was held in the Ministry of Environmental Protection in Haifa for Petroleum and Energy Infrastructure Company Ltd. (PEI), Eilat Ashkelon Pipeline Company Ltd. (EAPC) and ORL as a result of contentions of the Ministry of Environmental Protection whereby during an inspection made close to the fishing harbor in the PEI strip wherein Haifa Refinery and EAPC pipeline works are performed, findings were discovered that could indicate pollution and that soil suspected of being polluted was removed from the area to the Haifa Refinery. At the hearing held, ORL notified that it patrols the strip, the pipeline has cathode protection, the pipeline is tested before any flow is made therein and that the test results indicate there was no leakage from the pipeline. Notwithstanding that stated above, ORL cannot rule out the possibility that there is exposure with respect to this matter, in amounts that at this stage it is unable to estimate due to the fact that, among other things, the scope of the pollution, if it in fact exists, is unknown. In addition, ORL does not know if there is, in fact, pollution, when it was created and who is responsible.

9. In March 2008, an agreement was signed between a wholly owned subsidiary of ICL (guaranteed by ICL) and the partners in the Yam Tathys Group, for provision of natural gas to factories in the ICL Group Israel.

9. (Cont.)

The total quantity of gas the ICL Group committed to buy from the partners in the Yam Tathys Group is approximately 2 BCM (about 2 billion cubic meters), subject to adjustments as detailed in the agreement.

Supply of the gas is to commence upon completion of the pipeline transporting the gas from the South. As at the date of the report, based on the timetables provided by the transport company, Israel Natural Gas Lines Ltd., completion of the pipeline and the resulting conversion to operation based on gas of the ICL Group's production facilities in Sdom (wherein most of the gas consumption by the ICL Group is expected to take place) will take place towards the end of the first quarter of 2009. Supply of the gas will come to an end on the earlier of the following:

(1) A period of five years from the end of the running-in period, however not later than September 2015 (subject to extension as detailed below).

(2) Acquisition of the full amount of the gas as per the agreement.

The period described in subsection (1) will be automatically extended by an additional year if up to that date the full amount of the gas as per the agreement had not been consumed. In addition, the partners in the Yam Tathys Group have an option to extend the said period by an additional two years, until the full amount of the gas as per the agreement is consumed, all in accordance with the conditions stated in the agreement.

The price of the gas will be determined according to a formula that is based on the price of crude oil, with a discount component including "floor" and "ceiling" prices. The ICL Group committed to "take or pay for" an annual minimum quantity of gas as stated in the agreement and in accordance with a mechanism set forth therein.

Conversion from fuel to the use of gas will permit the ICL Group to reduce the emissions from its production vents and it is consistent with the ICL Group's policies of preserving natural resources and realizing savings.

The agreement includes a number of preconditions, the main ones of which being receipt of the permits required for establishment of the gas connection facilities and signing of a gas transport contract with Israel Natural Gas Lines Ltd.

10. The Corporation's Audit Committee and Board of Directors approved entry into negotiations with Ofer (Energy Holdings) Ltd. (hereinafter – "Ofer Energy"), a company owned by companies related to the Corporation's controlling interests, in connection with acquisition of 80% of the shares of OPC Rotem Ltd. (hereinafter – "OPC") from Ofer Energy. OPC is preparing to sign an agreement with Israel Electric Company Ltd. for construction of a power station in Rotem's zone. Ofer Energy has indicated that it is carrying on negotiations with Delkia Israel Ltd. (hereinafter – "Delkia") aimed at joining Delkia as an additional partner in the said project. The undertaking is contingent on performance of a due diligence examination.

11. In April 2008, ICL Fertilizers entered into agreements with customers in India covering sale of potash for a period of about one year, in the framework of which ICL Fertilizers will supply more than 1.1 million tons of potash (including optional quantities) for an aggregate monetary amount of about $700 million, with a price increase of about $355 million per ton compared with the prices in the prior agreement. ICL Fertilizers also entered into an agreement with a customer from China covering sale of potash for a period up to the end of 2008, in the framework of which ICL Fertilizers will supply about 300 thousand tons of potash with a price increase of about $400 million per ton compared with the prices in the prior agreement.

12. Limitations on use of bromine-based flame retardants: in April 2008 the European Court of Justice (EJC) ruled that the exemption given to DECA in the ROHS directive for electrical and electronic products was based on procedural errors and insufficient tests. As such, the exemption will be annulled in July 2008. The ruling does not refer to the matter itself and does not preclude the possibility of reinstating the exemption. At the same time and with no connection, ICL Industrial Products and other producers of flame-retardants are taking legal action in a court in Belgium against the position of the EU authorities relating to the prohibition against use of DECA. The hearing on the matter has not yet been held.

    In May 2008, the government of Sweden announced that the following opposition by the European Commission and EU member states, it is reversing its decision to ban the use of DECA in textiles, furniture and electric cables.

    The Norwegian government announced a general ban on the use of DECA in its territory commencing from April 2008, except in the automotive industry. In addition, it recommended adding the flame retardant HBCD to the list of POPs (Persistent Organic Pollutants) under the Stockholm Treaty of 2001, which, if accepted, would mean terminating or limiting the use of HBCD. At a hearing held in October 2008 by the Assessment Committee established under the Stockholm Treaty, it was decided to postpone the process for one year, until October 2009. Sales of HBCD by ICL Industrial products in 2008 are not significant. (See also Section 2.1.16.9 in the Paragraph "Description of the Corporation's Business" in the Periodic Report as at December 31, 2007).

13. On July 20, 2008, a claim was filed against the Corporation and Quantum (2007) LLC, a company wholly owned by the Corporation (hereinafter – "Quantum"), against Chery Automobile Co. Ltd. (hereinafter – "Chery") and individuals related to Chery, and against Cherry Quantum Auto Co. Ltd., a joint venture owned by Chery and Quantum. The claim was filed in Michigan in the United States by a U.S. company, V Cars LLC (formerly Visionary Vehicles) (hereinafter – "the Plaintiff"), which contended that it conducted negotiations with Chery for establishment of a joint venture for production of vehicles in China and distribution thereof in the United States. The contentions against the Corporation and Quantum include claims regarding use of confidential information that was provided to the Corporation by the Plaintiff, non-fulfillment of promises and breach of fiduciary obligations vis-à-vis the Plaintiff and making of a connection with Chery to prevent the Plaintiff's participation in the production, export, distribution and sale of Chery's cars in the United States. The Plaintiff claims losses in the amount of about $26 million, allegedly caused to it, as well as a loss of future earnings from its anticipated share in the venture in the amount of about $14 billion during the 30 years the venture was expected to be in operation. The Plaintiff is requesting an injunctive order to protect the exclusive distribution franchise in the United States it was allegedly granted. In addition, the Plaintiff is requesting a reimbursement of legal expenses along with other legal remedies. The claim is in the very early stages and Quantum is required to respond to it no later than December 2, 2008. The Corporation's legal advisors believe that the Corporation and Quantum have solidly-based contentions although not guaranteed for removing them from the claim due to lack of jurisdiction and an assertion of "inconvenient forum", due to the lack of presence or business in the State of Michigan. It is noted that, to the best of the Corporation's knowledge, the statement of claim has not yet been delivered to the other defendants. The Corporation's legal advisors note that at this early stage, and taking into account the fact that they do not have a full picture of all the facts, they are unable to assess the chances of the claim's success if, in fact, it reaches the trial stage.

14. In July 2008, charges were filed in the Magistrate's Court of Be'er Sheva against a second-tier subsidiary in the ICL Industrial Products Group and three of its officers. The second-tier subsidiary is charged with violating the terms of the company's business license and causing unreasonable air pollution in connection with four occurrences in 2004 wherein samples taken in the factory's exhaust vent and the surrounding area indicated, according to the State, non-conformance with the second-tier subsidiary's business license. The second-tier subsidiary, based on its legal advisors, believes that there is no basis for the charges and that it acted properly.

15. In July 2008, the Clean Air Law, 2008, was passed. The Clean Air Law, which will enter into effect on January 1, 2011, is expected to tighten the regulation and control over emission of substances into the air and will require plants emitting substances into the air to receive an emission permit for their operation. In addition, the Clean Air Law will increase the criminal and administrative sanctions imposable on a party violating the Law's provisions and causing strong or unreasonable air pollution.

    Pursuant to the interim provisions of the Clean Air Law, a plant operating in ORL's sector of operations and which properly operated an emission source pursuant to the provisions of a Personal Order granted to it, before the Clean Air Law came into effect, may continue to operate without a permit under the Clean Air Law until September 30, 2016 or until a decision is made on its application for an emission permit, whichever earlier, provided it applies for an emission permit no later than March 1, 2014.

    It is noted that ORL is in compliance with the provisions of a Personal Order granted to it. The secondary legislator was authorized by the Law to formulate material and central provisions related to implementation of the Clean Air Law, including provisions defining strong or unreasonable air pollution and steps and means to prevent strong or unreasonable pollution. These provisions have not yet been formulated.

    The provisions of the Clean Air Law also apply to ICL, with the necessary changes.

16. On August 24, 2008, the Corporation's Board of Directors decided to distribute a dividend in the amount of $50 million, which was paid on September 23, 2008.

17. The Haifa Rowing Club Association filed a class action in the Haifa Magistrate's Court under the Prevention of Environmental Damage (Civil Claims) Law, 1992, against a number of plants along the banks of the Kishon river, including Fertilizers and Chemicals of ICL Fertilizers. In March 2007, the court summarily dismissed the claim. The court allowed the discretion of the authorities in connection with granting permits for discharging waste into the Kishon, while noting the actions taken by the authorities and the defendants to improve the condition of the Kishon and the considerable improvement in recent years in the quality of the river's water. In September 2008, the District Court struck out the appeal filed against the summary dismissal decision as part of the agreement reached by the parties, whereby the striking out and summary dismissal of the claim by the Magistrate's Court will not prevent any of the parties from instituting any legal proceeding in the future, provided there are appropriate factual grounds for doing so. (See also Section 8.16.1.4 in the Paragraph "Description of the Corporation's Business" in the Periodic Report as at December 31, 2007).

18. On September 3, 2008, the Board of Directors of ICL resolved to grant ICL approval to buy-back, from time to time, by itself and/or by a subsidiary, ordinary shares of ICL in an amount up to 5% of ICL's issued and paid-up capital, out of ICL's distributable earnings, as defined in the Companies Law, 1999. The buy-back may be implemented during a period commencing from the date of the resolution and up to June 30, 2009, and may be made on or off the stock exchange. The said resolution does not bind ICL to acquire all or any part of the shares. The purchases will be made pursuant to the legal limitations and ICL's internal compliance plan for securities as well as in accordance with instructions provided from time to time by the ad hoc committee of the Board of Directors appointed for the matter – all within the framework of the aforesaid decision.

EVENTS OCCURRING DURING THE PERIOD OF THE REPORT AND THEREAFTER (Cont.)

18. (Cont.)

As at September 30, 2008, ICL had purchased 11,914,842 shares at a cost of about $169 million, constituting about 0.93% of ICL's issued and paid-up share capital (the Corporation's share is about 0.49%). Subsequent to the balance sheet date, ICL purchased an additional 4,105,000 shares at a cost of about $46 million. In total, ICL acquired 16,019,842 shares, constituting about 1.25% of ICL's issued and paid-up share capital (the Corporation's share is about 0.66%). As at the date of the report, ICL is continuing to execute the plan.

19. Subsequent to the balance sheet date, on November 16, 2008, Amendment No. 65 to the Law for Encouragement of Capital investments, 2008, was approved, pursuant to which the period between commencement of the "placed in service year" for the Approved Enterprises under the "Alternative Benefits Track" and commencement of the "election year" for the Benefited Enterprises (hereinafter – "the Cooling Off Period") was shortened from five years to three years, retroactively from April 1, 2005. In the estimation of the Group companies, the change in the Law will be reflected in a decrease in the provision for taxes. The Group is examining the monetary impact of the change of the Law on its financial position and results of operations.

20. Subsequent to the balance sheet date, on October 23, 2008, Carmel Olefins was served with a request for certification of a class action claim pursuant to the Class Actions Law, 2006, which was filed on October 5, 2008 in the Tel-Aviv District Court (hereinafter – "the Request").

The Request was filed for non-monetary damages allegedly caused by two smoke emission events that occurred on September 15, 2003 and October 5, 2003, where in a prior class action regarding the matter filed against ORL and Carmel Olefins, the plaintiffs agreed to remove Carmel Olefins from the claim.

In the Request, the claimant seeks to represent the residents of the Haifa Bay area and those who were present in the area (hereinafter – "the Group") and were exposed to the smoke emissions on the said dates.

The claimant asserts that each of the members of the Group should be compensated in the amount of NIS 1,000 in respect of the damage allegedly caused.

The Request does not state the estimated number of the Group's members and does not state the total amount the claimant contends that the members of the Group should compensated.

It is stated in the Request that it was filed following the results of a criminal procedure maintained against Carmel Olefins, wherein Carmel Olefins was convicted, based on its own admission, in an amended indictment relating to the events, by the Supreme Court.

In ORL estimation, based on the opinion of the legal advisors of Carmel Olefins, in view of the early stage of the claim, the complexity of the process and the fact that no amount was stipulated in the Request, it is not possible to evaluate the amount of ORL's exposure.

21. Regarding an investment by the Corporation in ZIM – see the Section on ZIM.

22. Regarding a memorandum of understanding to invest in Tower – see the Section on Tower.

ADDITIONAL INFORMATION INCLUDED IN THE AUDITORS' REVIEW REPORT

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

We direct attention to:

1. That stated in Note 8A regarding claims filed against subsidiaries, alleging that bodily injury and property damage caused to the plaintiffs derive from contamination of the Kishon Stream, which the plaintiffs contend the subsidiaries had a part therein. The managements of the subsidiaries, based on opinions of their legal advisors, are unable to estimate the amount of the exposure, if any, and therefore no provision has been included in the financial statements.

2. That stated in Note 8E regarding the dependency of a subsidiary on receipt of services from infrastructure companies.

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

Idan Ofer **Chairman of the Board of Directors**	**Nir Gilad** **CEO**

November 26, 2008

Israel Corporation Ltd.

Condensed Interim Consolidated Financial Statements

At September 30, 2008

(Unaudited)

IN MILLIONS OF U.S. DOLLARS

Somekh Chaikin
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The Board of Directors of
Israel Corporation Ltd.

Dear Sirs:

Re: Review of the condensed interim unaudited consolidated financial statements at September 30, 2008

At your request, we have reviewed the condensed interim consolidated balance sheet of Israel Corporation Ltd. at September 30, 2008, and the condensed interim consolidated statements of income, the condensed interim consolidated statements of recognized income and expenses and the condensed interim consolidated statements of cash flows for the nine-month and three-month periods then ended.

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

We received review reports of other auditors regarding the review of the condensed interim financial statements of certain subsidiaries the assets of which as at September 30, 2008 constitute about 10.4% of the total assets included in the condensed interim consolidated balance sheet, and the revenues of which constitute about 4.6% and about 4.7% of the total revenues included in the condensed interim consolidated statements of operations for the nine-month and three-month periods ended on that date, respectively. In addition, we received review reports of other auditors of associated companies the investment in which is about $88 million as at September 30, 2008, and the Corporation's equity in the net results of these associated companies is a loss of $5 million and income of $8 million for the nine-month and three-month periods then ended, respectively.

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

In the course of our review, including reading the review reports of other auditors as stated above, nothing came to our attention that would indicate the necessity of making material modifications to the said statements, in order for them to be considered statements prepared in accordance with International Accounting Standard IAS 34, Financial Reporting of Interim Periods, and in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

We direct attention to:

1. That stated in Note 8A regarding claims filed against subsidiaries, alleging that bodily injury and property damage caused to the plaintiffs derive from contamination of the Kishon Stream, which the plaintiffs contend the subsidiaries had a part therein. The managements of the subsidiaries, based on opinions of their legal advisors, are unable to estimate the amount of the exposure, if any, and therefore no provision has been included in the financial statements.

2. That stated in Note 8E regarding the dependency of a subsidiary on receipt of services from infrastructure companies.

Sincerely,

Somekh Chaikin
Certified Public Accountants (Isr.)

November 26, 2008

Israel Corporation Ltd.
Condensed Interim Consolidated Balance Sheets

	At September 30		At December 31
	2008	2007	2007
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Current Assets			
Cash and cash equivalents	**512**	333	519
Marketable securities	**534**	386	446
Short-term investments, deposits and loans	**212**	340	83
Trade receivables	**2,566**	1,631	1,760
Other receivables and debit balances, including derivative instruments	**713**	361	382
Income taxes receivable	**57**	22	32
Inventories	**2,427**	1,702	2,064
Total current assets	**7,021**	4,775	5,286
Long-Term Investments and Balances			
Investments in associated companies	**639**	360	*644
Investments in other companies	**46**	19	36
Deposits, loans and other long-term debit balances, including derivative instruments	**571**	232	*273
Deferred taxes net	**54**	23	*35
Non-current inventories	**47**	32	31
Total long-term investments and debit balances	**1,357**	666	1,019
Property, Plant and Equipment	**6,954**	6,108	6,517
Intangible Assets	**901**	932	*750
Total non-current assets	**9,212**	7,706	8,286
Total assets	**16,233**	12,481	13,572

* Reclassified.

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

Israel Corporation Ltd.
Condensed Interim Consolidated Balance Sheets

	At September 30		At December 31
	2008	2007	2007
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Current Liabilities			
Credit from banks and others	**1,365**	1,637	1,402
Trade payables	**1,370**	1,029	1,336
Provisions	**82**	60	*66
Other payables and credit balances, including derivative instruments	**902**	778	*585
Income taxes payable	**142**	51	*121
Total current liabilities	**3,861**	3,555	3,510
Non-Current Liabilities			
Loans from banks and others, including derivative instruments	**3,511**	2,707	2,972
Debentures	**3,011**	1,553	2,352
Provisions	**69**	45	*49
Deferred taxes, net	**724**	794	*814
Employee benefits	**647**	527	*503
Total non-current liabilities	**7,962**	5,626	6,690
Total liabilities	**11,823**	9,181	10,200
Equity			
Share capital and premium	**273**	273	273
Capital reserves	**61**	31	57
Retained earnings	**1,696**	1,130	1,147
Total equity attributable to the Corporation's equity holders	**2,030**	1,434	1,477
Minority interest	**2,380**	1,866	1,895
Total equity	**4,410**	3,300	3,372
Total liabilities and equity	**16,233**	12,481	13,572

* Reclassified.

Idan Ofer	Nir Gilad	Avisar Paz
Chairman of the Board of Directors	CEO	CFO

Approval date of the financial statements: November 26, 2008

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

Israel Corporation Ltd.
Condensed Interim Consolidated Statements of Income

	For the				
	Nine Months Ended September 30		Three Months Ended September 30		Year Ended December 31
	2008	2007	2008	2007	2007
	(Unaudited)		(Unaudited)		(Audited)
	In Millions of U.S. Dollars				
Sales	**16,418**	7,006	**6,078**	3,449	10,913
Cost of sales	**13,144**	5,765	**4,847**	2,938	9,063
Gross profit	**3,274**	1,241	**1,231**	511	1,850
Research and development expenses	**47**	28	**16**	10	39
Selling, transportation and marketing expenses	**639**	406	**212**	154	597
Administrative and general expenses	**381**	234	**120**	89	376
Other expenses	**58**	5	**55**	4	8
Other income	**(110)**	(21)	**(89)**	(12)	(27)
Operating income	**2,259**	589	**917**	266	857
Financing expenses	**765**	301	**388**	191	*435
Financing income	**(336)**	(114)	**(200)**	(28)	*(94)
Financing expenses, net	**429**	187	**188**	163	341
Share in losses of associated companies, net	**(38)**	(28)	**(39)**	(13)	(23)
Income before taxes on income	**1,792**	374	**690**	90	493
Taxes on income	**253**	86	**73**	8	120
Net income for the period	**1,539**	288	**617**	82	373
Attributable to:					
Holders of the Corporation's equity rights	**632**	112	**253**	4	113
Minority interest	**907**	176	**364**	78	260
Net income for the period	**1,539**	288	**617**	82	373
Earnings per share attributable to holders of the equity rights:					
Basic earnings per share (in dollars)	**83.09**	14.84	**33.46**	0.78	15.43
Fully diluted earnings per share (in dollars)	**82.38**	14.66	**33.14**	0.69	15.24

* Reclassified.

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

Israel Corporation Ltd.
Condensed Interim Consolidated Statements of Recognized Income and Expenses

	For the Nine Months Ended September 30		For the Three Months Ended September 30		Year Ended December 31
	2008	2007	2008	2007	2007
	(Unaudited)		(Unaudited)		(Audited)
	In Millions of U.S. Dollars				
Foreign currency translation differences in respect of foreign activities	**9**	43	**(57)**	28	85
Net change in fair value of financial assets classified as available for sale	**(12)**	–	**(1)**	–	–
Actuarial gains (losses), net	**(88)**	(13)	**(18)**	(2)	24
Net change in fair value of cash flow hedges transferred to the statement of income	**2**	–	**2**	–	–
Income from negative goodwill created upon acquisition of subsidiary and equity income from the acquisition date	**–**	60	**–**	2	60
Comprehensive income from investment in associated company	**2**	–	**(2)**	–	–
Effective portion of the change in fair value of cash flow hedges	**(5)**	–	**(9)**	–	–
Taxes in respect of revenues and expenses recorded directly to equity	**23**	2	**3**	(1)	1
Total other income (expense) for the period, net of tax	**(69)**	92	**(82)**	27	170
Income for the period	**1,539**	288	**617**	82	373
Total income for the period	**1,470**	380	**535**	109	543
Attributable to:					
Holders of the Corporation's equity holders	**598**	193	**207**	24	235
Minority interest	**872**	187	**328**	85	308
Total income for the period	**1,470**	380	**535**	109	543

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

Israel Corporation Ltd.
Condensed Interim Consolidated Statements of Cash Flows

	For the				
	Nine Months Ended September 30		Three Months Ended September 30		Year Ended December 31
	2008	2007	2008	2007	2007
	(Unaudited)		(Unaudited)		(Audited)
	In Millions of U.S. Dollars				
Cash flows from operating activities					
Net income for the period	**1,539**	288	**617**	82	373
Adjustments:					
Depreciation and amortization	**331**	233	**119**	107	349
Financing expenses, net	**400**	136	**239**	136	216
Share in losses of associated companies, net	**38**	28	**39**	13	23
Capital gains, net	**(70)**	(18)	**(66)**	(10)	(20)
Share-based payment transactions	**11**	7	**2**	3	11
Taxes on income	**253**	86	**73**	8	120
	2,502	760	**1,023**	339	1,072
Change in inventories	**(359)**	13	**14**	(5)	(315)
Change in trade and other receivables	**(856)**	49	**63**	193	(270)
Change in trade and other payables	**184**	(107)	**(59)**	(211)	374
Change in uncompleted voyages, net	**(58)**	(25)	**(21)**	(29)	(18)
Change in provisions and employee benefits	**82**	6	**7**	12	37
	1,495	696	**1,027**	299	880
Income taxes paid	**(275)**	(180)	**(118)**	(44)	(173)
Dividend received	**16**	11	**3**	7	12
Net cash provided by operating activities	**1,236**	527	**912**	262	719
Cash flows from investing activities					
Investment in long-term deposits	**(31)**	(3)	**(7)**	(2)	*(10)
Proceeds from sale of property, plant and equipment and other assets	**150**	18	**132**	7	26
Short-term deposits and loans, net	**(121)**	(5)	**(30)**	19	160
Business combinations less cash acquired	**(111)**	(1,559)	**–**	(379)	(1,559)
Investment in associated and other companies	**(59)**	(28)	**(42)**	(16)	(212)
Investment in available for sale securities	**(32)**	–	**(32)**	–	–
Sale (acquisition) of marketable securities, net	**(99)**	410	**(41)**	63	337
Acquisition of property, plant and equipment	**(725)**	(741)	**(246)**	(257)	(1,099)
Provision of long-term loans	**(20)**	(16)	**(3)**	(14)	(21)
Investment grants received	**2**	–	**–**	–	3
Proceeds from sale of investment in previously consolidated company	**–**	5	**–**	5	5
Acquisition of intangible assets	**(30)**	(28)	**(9)**	(21)	*(30)
Proceeds from realization of long-term deposits	**4**	4	**3**	2	5
Interest received	**43**	22	**20**	10	12
Net cash used in investing activities	**(1,029)**	(1,921)	**(255)**	(583)	(2,383)

* Reclassified.

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

Israel Corporation Ltd.
Condensed Interim Consolidated Statements of Cash Flows

	For the Nine Months Ended September 30		Three Months Ended September 30		Year Ended December 31
	2008	2007	2008	2007	2007
	(Unaudited)		(Unaudited)		(Audited)
	In Millions of U.S. Dollars				
Cash flows from financing activities					
Dividend paid to the minority	**(322)**	(206)	**(146)**	(39)	(299)
Proceeds from issuance of equity to the minority in subsidiaries	**2**	3	**–**	–	3
Receipt of long-term loans and issuance of debentures	**1,604**	1,719	**504**	519	2,600
Receipt of deposits from customers	**52**	2	**1**	2	9
Dividend paid	**(50)**	(60)	**(50)**	–	(60)
Acquisition by a subsidiary of its own shares	**(169)**	–	**(169)**	–	–
Repayment of long-term loans and debentures	**(1,133)**	(501)	**(158)**	(257)	(842)
Short-term credit from banks and others, net	**60**	619	**(637)**	105	681
Interest paid	**(300)**	(124)	**(140)**	(49)	(170)
Net cash provided by (used in) financing activities	**(256)**	1,452	**(795)**	281	1,922
Net increase (decrease) in cash and cash equivalents	**(49)**	58	**(138)**	(40)	258
Cash and cash equivalents at the beginning of the period	**502**	231	**621**	332	231
Effect of exchange rate fluctuations on balances of cash and cash equivalents	**14**	7	**(16)**	4	13
Cash and cash equivalents at the end of the period	**467**	296	**467**	296	502

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

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 consolidated financial statements 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, transportation and advanced technology sectors. 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 held at the rate of 55% by the Ofer Group and 18% by Bank Leumi Le-Israel B.M.

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 International Financial Reporting Standards (IFRS). These are the first condensed, consolidated, interim financial statements the Group has prepared for part of the period included in the first annual financial statements prepared according to IFRS, and in which IFRS 1, "First-Time Adoption of IFRS Standards" was applied.

The condensed, consolidated, interim financial statements were prepared in accordance with IAS 34, "Interim Financial Reporting" and do not include all of the information required in complete, annual financial statements. These statements should be read together with the Corporation's financial statements as at December 31, 2007 and for the year then ended. In addition, these financial statements have been prepared in accordance with Paragraph D of the Securities Regulations (Periodic and Immediate Reports) 1970.

The impact of the transition to IFRS on the Corporation's financial position, results of operations and cash flows is described in Note 10.

The condensed, consolidated, interim financial statements were approved for publication by the Corporation's Board of Directors on November 26, 2008.

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. In addition, the dollar serves as the presentation currency in these financial statements. Currencies other than the dollar constitute foreign currency.

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

C. Basis of measurement

The statements were prepared on the basis of historical cost, with the exception of the following assets and liabilities that are presented according to fair value: derivative financial instruments, financial instruments classified as available for sale and financial instruments at fair value through the statement of income.

D. Use of estimates and judgment

In preparation of the 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.

When formulating the accounting estimates used in preparation of the Corporation's financial statements, Corporation management is required to make assumptions regarding circumstances and events involving significant uncertainty. When using its judgment in making the estimates, Corporation management bases itself on past experience, various facts, external factors and reasonable assumptions regarding the appropriate circumstances for each estimate.

The estimates and the assumptions used for preparing the financial statements are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period during which the estimate was revised and in every future period affected.

Regarding a change in estimate – see Note 7A.

Note 3 – Significant Accounting Policies

The condensed, consolidated, interim financial statements were prepared on the basis of International Financial Reporting Standards (hereinafter, "IFRS"), which have been published and are valid or can be adopted early prior to the date of the Group's first annual report in accordance with IFRS, December 31, 2008, and according to which the Corporation has set its accounting policy.

IFRS that will be valid or that may be adopted early for annual financial statements for the year ending December 31, 2008 are subject to changes and publication of additional clarifications and therefore, they cannot be determined with certainty. Accordingly, the accounting standards for this year, which are relevant to this interim information, will be determined conclusively only when the first annual statements are prepared according to IFRS, as at December 31, 2008.

Preparation of the condensed, consolidated, interim financial statements in accordance with IAS 34, led to changes in the accounting policy, in comparison with the last annual financial statements, which were prepared in accordance with generally accepted accounting principles in Israel. The accounting policies described below were applied consistently to all periods presented in these condensed, consolidated, interim financial statements. They were also applied in preparation of the opening balance sheet as of January 1, 2007, for purposes of the transition to IFRS, as required by IFRS 1. The impact of the transition from generally accepted accounting principles in Israel to IFRS is described in Note 10.

Note 3 – Significant Accounting Policies (Cont.)

In addition, these financial statements are prepared in accordance with the provisions of Part D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The accounting policies according to IFRS are applied consistently in the Group companies.

A. Basis for Consolidation

(1) Subsidiary companies

Subsidiary companies are entities that are controlled by the Group. Control exists when the Group has the ability to determine the financial and operational policy of the entity in order to derive benefit from its activities. When examining control, potential voting rights that can be exercised immediately are taken into account. The financial statements of the subsidiary companies are included in the consolidated financial statements from the date control was acquired until the date control ceases to exist. (The accounting policy of the subsidiary companies was changed as necessary for it to correspond with the accounting policy adopted by the Corporation).

(2) Associated companies

Associated companies are entities regarding which the Group has significant influence over their financial and operational policy, however control has not been obtained. Associated companies are accounted for using the equity method of accounting. The consolidated financial statements include the Group's share in the revenues and expenses of investee entities accounted for using the equity method of accounting after making the adjustments necessary to conform the accounting policy to that of the Group from the date the significant influence exists and up to the date the said significant influence no longer exists. Where the Group's share in the losses exceeds the value of the Group's rights in an entity accounted for using the equity method of accounting, the book value of such rights (including any long-term investment) is written down to zero and the Group does not recognize additional losses, unless the Group is committed to support the investee entity or if the Group paid amounts for it.

(3) Treatment of acquisition of additional rights from the minority after a business combination

With respect to the treatment of transactions involving acquisition of shares from the minority shareholders in subsidiaries, the Corporation chose to record the entire excess cost created on acquisition of minority shares in subsidiaries to goodwill, and not to allocate it specifically to identified assets since the initial acquisition of control is not involved and since under IFRS upon the initial acquisition of control all the identified assets and liabilities were already revalued to their fair value on that date.

Note 3 – Significant Accounting Policies (Cont.)

A. Basis for Consolidation (Cont.)

(4) Treatment of sale of shares to the minority while maintaining control

With respect to transactions involving a sale of shares to the minority while maintaining control, the Corporation recognizes income from the sale equal to the difference between the proceeds received and the book value of the portion sold, consistent with the treatment it applied to acquisitions of the minority interest (increase in the rate of holding while maintaining control). In addition, this alternative more properly reflects the nature of the Corporation's current activities relating to acquisitions and sales of holdings in various companies.

(5) Jointly controlled entities treated in accordance with the proportionate consolidation method

Jointly controlled entities are entities with respect to which the Group has joint control over their activities, which is obtained by means of a contractual arrangement requiring the joint consent of the other investors in connection with strategic, financial and operational decisions. Jointly controlled entities are treated in accordance with the proportionate consolidation method from the date on which the joint control obtains and up to the time such joint control no longer exists. The consolidated financial statements include the Group's proportionate share in the assets, liabilities, revenues and expenses of the proportionately consolidated companies based on the rates of the holdings in those companies, after the adjustments necessary in order to conform their accounting policies to those of the Group.

(6) Intercompany balances and transactions eliminated in the consolidation

Intercompany balances within the Group and unrealized income and expenses deriving from intercompany transactions are eliminated in preparation of the condensed, consolidated financial statements. Unrealized income deriving from transactions with associated companies was eliminated against the investment based on the Group's rights in these investments. Unrealized losses are eliminated in the same manner as unrealized income, provided there is no evidence of an impairment in value.

(7) Minority interest

The minority interest represents the net interest in the assets of subsidiaries that is allocated to rights not owned by the Corporation, whether directly or indirectly through subsidiaries and regarding which the Corporation has not agreed to additional conditions with the holders of those rights that would cause the total group to be contractually obligated with respect to those rights that meet the definition of a financial obligation. The minority interest is presented in the consolidated balance sheet in the equity section, separate from the equity attributable to the Corporation's shareholders. The minority interest in the Group's results is presented in the consolidated statement of income as an allocation of the total income or loss for the period between the minority interest and the Corporation's shareholders.

Note 3 – Significant Accounting Policies (Cont.)

A. Basis for Consolidation (Cont.)

(7) Minority interest (Cont.)

Where the losses attributable to the minority interest exceed the minority's interest in the subsidiary's equity, such excess along with any additional losses applying to the minority interest are recorded against the Group's rights, except where the minority interest has an enforceable obligation to make and it is capable of making an additional investment to cover the losses. If the subsidiary subsequently reports income, such income is allocated to the Group's rights until the minority's interest in the losses previously absorbed by the Group is recovered.

(8) Issuance of "put" option issued to rights' holders that do not confer control

A "put" option issued by the Group to rights' holders that do not confer control is recorded as a liability at fair value, which is treated as contingent acquisition cost of the rights that do not confer control. Changes in the fair value in the succeeding periods are recorded on the statement of income. The Corporation's share in the income of the company being acquired includes the share of the other rights' holders to which the Corporation issued the "put" option.

B. Foreign Currency

(1) Transactions in foreign currency

Transactions in foreign currency are translated into the Group's functional currency based on the exchange rate in effect on the dates of the transactions. Monetary assets and liabilities denominated in foreign currency on the report date are translated into the Group's functional currency based on the exchange rate in effect on that date. Exchange rate differences in respect of the monetary categories is the difference between the net book value in the functional currency at the beginning of the period plus the payments during the period and the net book value in foreign currency translated based on the rate of exchange at the end of the period. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency based on the exchange rate in effect on the date the fair value was determined. Exchange rate differences deriving from re-translation are recognized in the statement of income, except for differences deriving from re-translation of non-monetary equity instruments classified as available for sale or cash-flow hedges that are recorded directly to equity.

(2) Foreign activities

The assets and liabilities of foreign activities, including goodwill and adjustments to fair value created upon acquisition, were translated into dollars according to the rates of exchange in effect on the balance sheet date. Income and expenses of foreign activities were translated into dollars according to the rates of exchange that were in effect on the transaction dates.

Note 3 – Significant Accounting Policies (Cont.)

B. Foreign Currency (Cont.)

(2) Foreign activities (Cont.)

Exchange rate differences resulting from the translation are recorded directly to equity, as of January 1, 2007, the date of transition to IFRS. According to the provisions of IFRS 1, the Group chose to zero out the accumulated translation differences against the balance of the retained earnings for all its foreign activities, on the transition date to IFRS. When a foreign activity is realized, in whole or in part, the appropriate amount in the translation reserve is transferred to the income statement.

Gains and losses from translation differences deriving from loans received from or granted to foreign activities, the settlement of which is not planned and is not expected to take place in the foreseeable future, are included as part of the net investment in the foreign activities and are recorded directly to equity in a reserve for translation of foreign currency.

C. Financial Instruments

(1) Non-derivative financial instruments

Non-derivative financial instruments include investments in shares and debt instruments, trade and other receivables, cash and cash equivalents, loans, credit received, debentures, supplier credit and trade and other payables.

The initial recognition of non-derivative financial instruments is according to fair value, with the addition of, for instruments not presented at fair value through the statement of income, all attributable direct transaction costs. After the initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognized when the Group accepts the contractual conditions of the instrument. Financial assets are eliminated when the contractual rights of the Group to the cash flows deriving from the financial assets expire, or when the Group transfers the financial assets to others without retaining control or effectively transfers all of the risks and rewards deriving from the asset. Acquisitions and sales of financial assets made in the usual manner are recognized on the transaction date, that is, on the date the Group undertook to buy or sell the assets. Financial liabilities are deducted when the Group's obligation as described in the contract expires or when it is paid or cancelled.

Cash and cash equivalents

Cash and cash equivalents include cash balances or deposits that are available for immediate withdrawal. Cash equivalents include highly liquid short-term investments that can be easily converted into known amounts of cash and that are exposed to insignificant risk regarding changes in value. Revolving credit from banks, which are repayable on demand and that constitute an integral part of the Group's cash management, are included as part of the cash and cash equivalents solely for purposes of the statement of the cash flows.

Note 3 – Significant Accounting Policies (Cont.)

C. Financial Instruments (Cont.)

(1) Non-derivative financial instruments (Cont.)

Financial assets available for sale

The Group's investments in shares and certain debt instruments are classified as financial assets available for sale. After the initial recognition, these investments are measured based on fair value, where the changes therein, except for losses from decline in value, dividend income and gains or losses from changes in the exchange rate, and accrual of effective interest regarding monetary items classified as available for sale are recorded directly to equity. A dividend received in respect of monetary assets classified as available for sale is recorded on the statement of income on the date the right to the payment arises. When the investment is eliminated, the gains or losses accrued to equity are transferred to the statement of income.

Investments in securities presented at fair value through the statement of income

A financial instrument is classified as measured at fair value through the statement of income if it is held for sale or if it is so designated at the time of the initial recognition. A designated financial instrument is measured at fair value through the statement of income if the Group maintains investments of this type and makes buy and sell decisions based on the fair value, in accordance with the way in which the Corporation documented the risk management and investment strategy. At time of the initial recognition, the allocable transactions costs are recorded on the statement of income as incurred. These financial instruments are measured at fair value and the changes therein are recorded on the statement of income.

Loans and receivables

Loans and other debit balances are non-derivative financial assets bearing payments that are fixed or that can be fixed and that are not traded on an active market. After the initial recognition, the loans and other debit balances are measured based on amortized cost using the effective interest method while taking into account transaction costs and less provisions for decline in value.

CPI-linked assets and liabilities not measured at fair value

The value of CPI-linked assets and liabilities that are not measured at fair value is revalued every period based on the actual increase in the CPI.

Note 3 – Significant Accounting Policies (Cont.)

C. Financial Instruments (Cont.)

(2) Derivative financial instruments

The Group companies make use of financial instruments for purposes of reducing exposure to risks relating to product prices, foreign currency risks and interest risks, as well as fuel prices for the fleet of ships. In order for a transaction in financial instruments to be considered as an accounting hedge a number of conditions must be fulfilled, including conditions with respect to the instrument's designation, compliance with strict documentation requirements and high effectiveness of the hedge at the beginning and during the entire course of the hedge. Hedge accounting is not applied in respect of derivative financial instruments that serve as an economic hedge. Changes in the fair value of derivative financial instruments that fulfill the conditions required for an accounting hedge are recorded immediately on the statement of income in every period.

Some of the transactions executed by the Corporation in financial instruments for purposes of reducing the economic exposure, as stated above, do not meet the hedge conditions provided in the international standards. Accordingly, the said financial instruments are measured at fair value where changes in the fair value are recorded immediately on the statement of income.

Derivatives are initially recognized according to fair value and the allocable transaction costs are charged to the statement of income as incurred. The changes in the fair value of derivatives on commodity prices and refining margins are classified as part of the cost of sale, whereas the changes in the fair value of derivatives on currency and interest rates are classified as part of the financing expenses.

After the initial recognition, the derivatives are measured at fair value, where the changes in the fair value are treated as follows:

Cash flow hedge

Changes in the fair value of a currency swap transaction intended to hedge cash flows, in respect of the effective hedge portion, are recorded directly to equity. Changes in the fair value in respect of the non-effective portion are recorded on the statement of income

If the hedging instrument no longer meets the criteria of an accounting hedge, or if it expired or was sold, is cancelled or realized, the treatment in accordance with hedge accounting is stopped. The gain or loss previously accrued to equity remains in equity until the projected transaction is executed. The amount recorded in equity is transferred to the statement of income in the period in which the hedged category impacts the statement of income.

Note 3 – Significant Accounting Policies (Cont.)

C. Financial Instruments (Cont.)

(2) Derivative financial instruments (Cont.)

Economic hedge

Hedge accounting is not applied with respect to derivative financial instruments used for an economic hedge of financial assets and liabilities denominated in foreign currency, used for an economic hedge of anticipated cash flows in foreign currency or an economic hedge of interest risks. The changes in the fair value of these derivatives are recorded on the statement of income as part of the gains and losses from foreign currency.

Derivatives not used for hedging purposes

The changes in the fair value of these derivatives are recorded on the statement of income immediately. In this regard, the Group applies the said accounting treatment to changes in the fair value of the conversion component of CPI-linked convertible debentures and options the exercise premium of which is not fixed.

Separated embedded derivatives

The changes in the fair value of separated embedded derivatives are recorded on the statement of income immediately.

D. Property, Plant and Equipment

(1) Recognition and measurement

Property, plant and equipment items are presented at cost after deducting the related amounts of investment grants and less accumulated depreciation and losses from declines in value.

The cost includes expenses that can be directly attributed to the purchase of the asset. The cost of assets that were constructed independently includes the cost of the materials and direct salary costs, as well as any additional cost that are directly attributable to bringing the asset to the required position and condition so that it will be able to function as management intended, as well as costs to dismantle and remove the items and to restore its location. The cost of purchased software, which is an inseparable part of operating the related equipment, is recognized as part of the cost of said equipment.

The cost of a number of items of property, plant and equipment in a proportionately consolidated company, was determined based on the fair value as at January 1, 2007, the transition date to IFRS ("deemed cost").

Spare parts for facilities are valued at cost determined based on the moving average method, after recording a write-down in respect of obsolescence. The portion designated for current consumption is presented in the inventory category in the current assets section.

Note 3 – Significant Accounting Policies (Cont.)

D. Property, Plant and Equipment (Cont.)

(1) Recognition and measurement (Cont.)

Where significant parts of an item of property, plant and equipment (including costs of major periodic inspections) have different life expectancies, they are treated as separate items (significant components) of such items.

Changes in a commitment to dismantle and remove items and to restore their location, except for changes stemming from the passage of time, are added to or deducted from the cost of the asset in the period in which they occur. The amount to be deducted from the cost of the asset may not exceed its book value and the balance, if any, is to be recognized immediately on the statement of income.

Fleet of ships and related equipment

The fleet of ships and related equipment are presented at cost less accumulated depreciation and accumulated impairment losses. The cost of inspecting the vessel (dry docking), that needs to be performed after a number of years of operation (usually once every five years), is separated from the cost of the vessel and depreciated according to the period until the following inspection. Corporation management believes that a ship does not have another material separate component whose expected period of use is different from the expected period of use of the entire vessel (25 years).

Part of the fleet of ships was acquired using loans at reduced interest rates, subsidised by the governments of the countries of residence of the shipbuilders. Those ships are presented net of the interest component included in the purchase price calculated as the difference between the interest payable over the period of the loan using the subsidised interest rate and that using the prevailing market interest rates. The loan is recognized at its present value taking into account the non-subsidized effective interest, such that interest expense is recorded on it based on the market interest rate on the date of the loan's receipt.

Non-specific borrowing costs were capitalized as part of the cost of the fleet of ships in the construction period and up to the delivery date of the fleet of ships.

Gains and losses on disposal of a ship item, containers, handling equipment and other tangible assets are determined by comparing the proceeds from disposal with the carrying amount of the item, and are recognized net within "other income" in the statement of income.

(2) Subsequent costs (costs incurred after the initial recognition date)

The cost of replacing part of an item of property, plant and equipment is recognized as part of the book value of the item if it is expected that the future financial benefit inherent in the item will flow to the Group and that its cost can be measured in a reliable manner. The book value of the part that was replaced is eliminated. Routine maintenance costs are charged to the statement of income as incurred.

Significant improvements that extend the useful lives of property, plant and equipment are capitalized as part of the cost of the property, plant and equipment.

Note 3 – Significant Accounting Policies (Cont.)

D. Property, Plant and Equipment (Cont.)

(3) Depreciation

Depreciation is charged to the statement of income according to the straight-line method over the estimated useful life of each part of the property, plant and equipment items. Leased assets, including leasehold improvements, are depreciated over the shorter of the lease period or the useful life of the asset, unless there is reasonable certainty that the Group will obtain control over the assets at the end of the lease period. Real estate assets are not depreciated.

The estimated useful lives for the current period and comparative periods is as follows:

	In Years
Land development, roads and structures	10–50
Facilities, machinery and equipment	5–50
Dams and pools	6–25
Heavy mechanical equipment, train cars and tanks	5–50
Office furniture and equipment, motor vehicles, computer equipment and other	3–17
Power station	20–50
Catalysts	2–10
Leasehold improvements	Over the term of the lease

The estimates regarding the depreciation method, useful life and scrap value are re-evaluated, at a minimum, at the end of every reporting year.

The estimated useful lives of the fleet of ships and the accompanying equipment for the current period and comparative periods is as follows (taking into account a salvage value of 10% of the cost of the assets):

	In Years
Fleet of ships	25
Containers	13
Chassis	30
Other equipment	13
Dry-dock for fleet of owned ships	Up to 5 years

E. Intangible Assets

(1) Goodwill

Goodwill and negative goodwill are created as a result of acquisition of subsidiaries, including minority acquisitions, associated companies, including acquisitions of additional rights in the associated companies, or proportionately consolidated companies.

Note 3 – Significant Accounting Policies (Cont.)

E. Intangible Assets (Cont.)

(1) Goodwill (Cont.)

Acquisitions before January 1, 2007

As part of the transition to reporting according to IFRS, the Group chose to restate according to IFRS only business combination transactions occurring after the date of transition to IFRS, January 1, 2007. Regarding acquisitions that occurred before January 1, 2007, the goodwill reflects the amount recognized by the Group, in accordance with generally accepted accounting principles in Israel. For these acquisitions, the classification and accounting treatment were not adjusted to IFRS for purposes of preparation of the Group's opening balance sheet.

Acquisitions after January 1, 2007

Regarding acquisitions on and after January 1, 2007, the goodwill reflects the excess of the acquisition cost over the Group's rights in the net fair value of the identified assets, liabilities and contingent liabilities of the acquired entity, where when such excess is negative (negative goodwill) it is recorded to the statement of income.

Acquisition in stages

In business combinations executed in stages, all the identified assets and liabilities of the acquired company are presented at their fair values on the date control of the acquired company is obtained. The difference created due to revaluation of prior acquisitions on the date control is obtained is not material. The balance of negative goodwill on the dates of the original acquisitions and the Corporation's share in the income of the acquired company in the period up to the date control of the acquired company is obtained are recorded in the retained earnings.

Acquisition of the minority interest

The difference between the amount paid and the minority interest acquired is recognized as goodwill.

Subsequent measurement

Goodwill is measured according to cost after deduction of accrued losses from declines in value. Goodwill in respect of investments in associated companies is included in the book value of the investment.

Note 3 – Significant Accounting Policies (Cont.)

E. Intangible Assets (Cont.)

(2) Research and Development

Costs related to research activities undertaken for the purpose of acquiring knowledge and new scientific or technological understandings are charged to the statement of income as incurred.

Development activities related to a plan for the production of products or new processes or significant improvement of products. Costs of development activities are recognized as an intangible asset only if: it is possible to reliably measure the development costs; it is technically and commercially possible to implement the product or process; future economic benefit is expected from the product and the Group has intentions and sufficient resources to complete development of the asset and then use or sell it.

(3) Other intangible assets

Other intangible assets purchased by the Group, with a defined useful life, are measured according to cost less amortization and accrued losses from declines in value.

(4) Dry-dock for fleet of leased ships

The cost of inspecting the fleet of ships held under a bareboat charter (an operating lease) is amortized according to the shorter of the period up to the next inspection or the period up to the end of the lease.

(5) Subsequent costs

Subsequent costs are recognized as an intangible asset only when they increase the future economic benefit inherent in the asset for which they were incurred. All other costs, including costs relating to goodwill or trademarks developed independently, are charged to the statement of income as incurred.

(6) Amortization

Amortization is recorded on the statement of income according to the straight-line method (except for agreements with customers and geological surveys that are amortized over the rate of consumption of the economic benefits expected from the asset on the basis of the projected cash flows) over the estimated useful economic life of the intangible assets, commencing from the date the assets are available for use, other than goodwill and intangible assets with an undefined useful life, which are not amortized on a systematic basis but, rather, are examined each period for indications of a decline in value.

Note 3 – Significant Accounting Policies (Cont.)

E. Intangible Assets (Cont.)

(6) Amortization (Cont.)

The estimated useful lives for the current period and comparative periods is as follows:

	In Years
Concessions	*
Software costs	3–10
Trademarks	5–13
Agreements with customers	3–15
Agreements with suppliers	5
Patent	13–15
Non-competition agreement	5
Royalties in respect of know-how (paid in advance)	8
Water and electricity rights	25
Dry-dock for fleet of leased ships	Up to 5 years

Deferred expenses in respect of geological surveys are amortized over the useful life based on a geological estimate of the amount of the material that will be produced from the mining site.

* Over the balance of the concession granted to the companies.

The estimates regarding the amortization method and useful life are reviewed, at a minimum, at the end of every reporting year.

The Group periodically examines the estimated useful life of an intangible asset that is not amortized in order to determine if events and circumstances continue to support the determination that the intangible asset has an undefined life.

F. Leased Assets

Leases wherein the Group bears most of the risks and rewards relating to the asset are classified as a financing lease. At the time of the initial recognition, the leased assets are measured at an amount equivalent to the lower of the fair value and the present value of the minimum lease fees. After the initial recognition, the asset is treated in accordance with the accounting policies covering such asset. The rest of the leases are classified as operating leases, where the leased assets are not recognized in the Corporation's balance sheet.

In sale and leaseback transactions, capital gains from the sale are recorded in the statement of income, where the selling price is equal to the fair value of the asset sold and leaseback is defined as an operating lease.

Leases of land from the Israel Lands Administration (hereafter – "ILA") constitute operating leases. Lease fees paid to the ILA are paid currently and are recorded on the statement of income.

Note 3 – Significant Accounting Policies (Cont.)

G. Inventories

Inventory is measured at the lower of cost or net realizable value. The cost of the inventory includes the costs of purchasing the inventory and bringing it to its current location and condition. In the case of work in process and finished goods, the cost includes the proportionate part of the manufacturing overhead based on normal capacity. Net realization value is the estimated selling price in the ordinary course of business, after deduction of the estimated cost of completion and the estimated costs required to execute the sale. The market value of the inventory of crude oil is determined on the basis of international prices.

The cost of the inventory of raw and auxiliary materials, maintenance materials, finished goods and goods in process, crude oil, fuel products and intermediate products for refining, is determined mainly according to the "moving average" method.

Some of the raw materials, finished goods and goods in process are in bulk. The quantities are based on estimates (which are made, for the most part, by outside experts who measure the volume and density of the inventory).

Inventory the sale of which is expected to take place in a period of more than 12 months from the balance sheet date is presented as non-current inventory, as part of investments and long-term debit balances.

H. Capitalization of Credit Costs

The costs of specific credit and non-specific credit were capitalized to qualifying assets, as defined in International Accounting Standard 23 "Credit Costs", during the period required for completion and establishment until the time when they are ready for their intended use. Non-specific credit costs were capitalized in the same manner to the investment in qualifying assets or to the part thereof that was not financed by specific credit using an interest rate that is the weighted-average of the cost rates in respect of those credit sources that were not capitalized specifically. Other credit costs are charged to the statement of income as incurred.

I. Impairment in Value

(1) Financial assets

A decline in value of a financial asset is examined when there is objective evidence that one or more events have occurred that may have had a negative effect on the estimate of the future cash flows from the asset.

In the examination of decline in value of financial assets available for sale that are equity instruments, the Corporation also examines the difference between the fair value of the assets and its original cost, while taking into account the standard deviation of the instrument's rate, the length of time the asset's fair value is less than its original cost and changes in the technological, economic and/or legal environment, and/or the environment in the market in which the company issuing the instrument operates.

Note 3 – Significant Accounting Policies (Cont.)

I. Impairment in Value (Cont.)

(1) Financial assets (Cont.)

The loss from impairment in the value of a financial asset measured according to depreciated cost is calculated as the difference between the book value of the asset and the present value of the estimated future cash flows, discounted using the original effective interest rate. A loss from decline in value of a financial asset classified as available for sale is calculated based on the asset's present fair value.

For material financial assets, the need to reduce the value of the asset is examined for each asset individually.

All losses from declines in value are recorded to the statement of income. The cumulative loss relating to a financial asset classified as available for sale and previously recorded in equity, was transferred to the statement of income where there was a decline in its value.

The loss from impairment in value is cancelled when such recovery is objectively attributable to an event that occurred after recognition of the loss from impairment in value. Cancellation of a loss from impairment in value in respect of financial assets measured according to depreciated cost and of financial assets classified as available for sale that are debt instruments, is recorded to the statement of income. Cancellation of a loss from impairment in value in respect of financial assets classified as available for sale that are equity instruments, is recorded directly to the equity section.

(2) Non-financial assets

The book value of the Group's non-financial assets, other than inventory and deferred tax assets, is examined for each reporting period in order to determine if there are signs indicating impairment in value. If such signs exist, the estimated recoverable amount of the asset is calculated. On December 31, 2007, the transition date to IFRS, the Group conducted an examination of declines in value of goodwill, intangible assets with an undefined useful life and investments in associated companies for which goodwill was recognized in the investment account. In subsequent periods, the Group conducts an annual examination of the recoverable amount for goodwill and intangible assets with an undefined useful life or that are not available for use, or more frequently if there are indications of a decline in value.

The recoverable amount of an asset or a cash-producing unit is the higher of its use value or the net selling price (fair value minus selling costs). When determining the use value the Group discounted the anticipated future cash flows according to the pre-tax discount rate that reflects the market evaluations regarding the time value of the money and the specific risks attributed to the asset. For purposes of testing impairment in value, the assets are grouped together into the smallest group of assets that yields cash flows from continuing use, which are essentially independent of the other assets and other groups ("cash-producing unit"). Goodwill purchased in the context of business combinations is allocated for the purpose of examining impairment in value to cash-producing units that are expected to yield benefits from the synergy of the combination.

Note 3 – Significant Accounting Policies (Cont.)

I. Impairment in Value (Cont.)

(2) Non-financial assets (Cont.)

Losses from impairment of value are recognized when the book value of the assets or of the cash-producing unit to which the asset belongs exceeds the recoverable value and are recorded to profit and loss. Losses from impairment of value that were recognized for cash-producing units are first allocated to reducing the book value of the goodwill attributed to these units and afterwards to reducing the book value of the other assets in the cash-producing unit, proportionately.

A loss from impairment in value of goodwill is not cancelled. Regarding other assets, losses from impairments of value that were recognized in previous periods are re-examined in each reporting period in order to determine if there are signs indicating that the losses have decreased or no longer exist. A loss from impairment of value is cancelled if there is a change in the estimates used to determine the recoverable value, only if the book value of the asset, after cancellation of the loss from impairment of value, does not exceed the book value, after deduction of deprecation or amortization, that would have been determined if the loss from impairment of value had not been recognized.

J. Employee Benefits

The Group has several post-employment benefit plans. The plans are funded primarily by deposits with insurance companies or pension funds, and they are classified as defined contribution plans and as defined benefit plans.

(1) Defined contribution plans

The Group's obligation to make deposits in a defined contribution plan is recorded as an expense to profit and loss at the time the obligation to make the deposit arises.

(2) Defined benefit plans

The Group's net obligation, regarding defined benefit plans for post-employment benefits, is calculated for each plan separately by estimating the future amount of the benefit to which an employee will be entitled as compensation for his services during the current and past periods. The benefit is presented according to present value after deducting the fair value of the plan assets. The discount rate of the Group companies operating in countries wherein there is a market having a high level of trading in corporate debentures is in accordance with the yield on the corporate debentures. The discount rate of the Group companies operating in countries wherein there is no market having a high level of trading as stated above, is in accordance with the yield on government bonds on the report date, where their currency and maturity date are similar to the conditions obligating the Group. The calculations are performed by a licensed actuary using the "projected eligibility unit" method.

Note 3 – Significant Accounting Policies (Cont.)

J. Employee Benefits (Cont.)

(2) Defined benefit plans (Cont.)

The discount rate of the Group companies operating in Israel is in accordance with the yield on government bonds in Israel, to the best of the Corporation's knowledge, the issue of the discount interest rate for the actuarial calculations is being examined and it is possible that it will ultimately be decided that in Israel the proper discount interest rate is that based on corporate bonds. In that case, the amounts included in these statements will change, the actuarial liability will be decreased and the expenses for current funding of the liability will increase.

When on the basis of the calculations an asset is created for the Group, the asset is recognized up to the net present value of the available economic benefits in the form of a refund from the plan or by a reduction in future deposits to the plan. An economic benefit in the form of return from the plan or a reduction in future deposits will be considered available when it can be realized in the lifetime of the plan, after settlement of the obligation.

When there is an obligation, as part of a minimal deposit requirement, to pay in additional amounts in respect of services provided in the past, the Corporation recognizes an additional liability (an increase of the net liability or a decrease of the net asset), provided that such amounts are not available as an economic benefit in the form of a refund from the plan or by a reduction in future deposits to the plan.

Where there is an improvement in the benefits granted by the plan to the employees, the portion of the increased benefits relating to the employees' past services is recorded on the statement of income based on the straight-line method over the average period up to the vesting of the benefits. If the benefits vest immediately, the expense is recorded on the statement of income immediately.

Set forth below are the measurement principles applied by the Corporation:

(a) The movement in the liability in respect of a defined benefit plan for every accounting period is composed as follows:

(i) Current service costs – the actuarial increase in the liability deriving from employee benefits in respect of the current period;

(ii) Current interest costs – the increase in the liability deriving from the passage of time;

(iii) Anticipated yield on the fund's assets;

(iv) Exchange rate differences.

(b) The net liability (or net assets of the pension fund) included in the balance sheet partly reflects the difference between the following two components, calculated as follows:

(i) Liability for payments – calculated on the basis of the balance of the liability as at the beginning of the period, plus current service costs and current interest costs (as described in subsection (a), above), less amounts paid during the period.

Note 3 – Significant Accounting Policies (Cont.)

J. Employee Benefits (Cont.)

(2) Defined benefit plans (Cont.)

(b) (Cont.)

(ii) Fund assets – calculated on the basis of the balance of the assets as at the beginning of the period plus the anticipated yield on the fund's assets and exchange rate differentials (as described in subsection (a), above), and deposits made during the period and less amounts paid during the period.

(c) The difference, as at the balance sheet date, between the liability computed as described in subsection (b), above, and the actuarial liability less the fair value of the fund assets as at that date, reflects the balance of the actuarial income or expenses recorded directly to capital and exchange rate differences that are recorded on the statement of income in the "financing" category.

(3) Other long-term employee benefits

The Group's net obligation for long-term employee benefits, which are not attributable to post-employment plans, is for the amount of the future benefit to which employees are entitled for services that were provided during the current and past periods. The amount of these benefits is discounted to its present value and the fair value of the assets related to this obligation is deducted therefrom. The discount rate is determined according to the yield on government bonds, where their currency and maturity date are similar to the conditions that obligate the Group, as at the reporting date. The calculations are performed by using the "projected eligibility unit" method. Actuarial profits and losses are recorded to the statement of income in the period in which they arise.

Regarding use of a discount rate deriving from government bonds, to the best of the Corporation's knowledge the issue of the discount interest rate for the actuarial calculations is being examined and it is possible that it will ultimately be decided that in Israel the proper discount interest rate is that based on corporate bonds. In that case, the amounts included in these statements will change, the actuarial liability will be decreased and the expenses for current funding of the liability will increase.

(4) Severance pay

Severance pay is charged as expense when the Group is clearly obligated to pay it, without any reasonable chance of cancellation, in respect of termination of employees before they reach the customary age of retirement according to a formal, detailed plan. The benefits given to employees upon voluntary retirement are charged when the Group proposes a plan to the employees encouraging voluntary retirement, it is expected that the proposal will be accepted and it is possible to reliably estimate the number of employees that will accept the proposal.

(5) Short-term benefits

Obligations for short-term employee benefits are measured on a non-discounted basis, and the expense is recorded at the time the said service is provided.

Note 3 – Significant Accounting Policies (Cont.)

J. Employee Benefits (Cont.)

(5) Short-term benefits (Cont.)

A provision for short-term employee benefits in respect of cash bonuses is recognized when the Group has a current legal or implied obligation to pay the said amount for services provided by the employee in the past and it is possible to reliably estimate the amount.

(6) Share-based payment transactions

The fair value at the time options are granted to employees is charged as a salary expense, with a corresponding increase in equity (in the retained earnings category), over the period in which the employees' eligibility for the options vests. The amount recorded as an expense is adjusted in order to reflect the number of options that are expected to vest.

K. Provisions

A provision is recognized when the Group has a present legal or implied obligation as the result of an event that occurred in the past, when it can be reliably estimated and when it is expected that a flow of economic benefits will be required in order to settle the obligation. The provision is determined based on capitalization of the future cash flows using a pre-tax interest rate reflecting the current market estimates with respect to the time value of money and the risks specific to the liability.

(1) Warranty

A provision for warranty is recognized when the products or services, in respect of which the warranty is provided, are sold or performed. The provision is based on historical data and on a weighting of all possible expenses according to their probability of occurrence.

(2) Reorganization

A provision for reorganization is recognized when the Group approves a formal detailed plan for reorganization and such reorganization has effectively begun, or where a notification in respect thereof has been given to the employees. The provision does not include future operating expenses.

(3) Provision for environmental costs

The Group recognizes a provision for an existing obligation that has occurred in respect of a current cost for operation and maintenance of facilities for prevention of environmental pollution and anticipated provisions for costs relating to environmental restoration stemming from current or past activities. Costs for preventing environmental pollution that increase the life expectancy or efficiency of the facility or decrease or prevent the environmental pollution, are recorded to the cost of the fixed assets and are depreciated according to the usual depreciation rates used by the Group.

Note 3 – Significant Accounting Policies (Cont.)

K. Provisions (Cont.)

(4) Legal claims

A provision for legal claims is recorded where the Group has a present legal or implied obligation as the result of a past event, when it is more likely than not that the Group will be required to use its economic resources to settle the obligation and it can be reliably estimated. Where the time value of money is significant, the provision is measured based on its present value. In addition, in rare cases where it is not possible to estimate the outcome of the contingency, no provision is recorded in the financial statements.

(5) Onerous contracts

A provision for onerous contracts is recognized where the benefits expected to be received from the contracts by the Group are low compared with the unavoidable costs stemming from compliance with the contractual liabilities. The provision is measured based on the lower of the present value of the expected cost of canceling the contract and the net present value of the expected cost of continuing to honor the contract.

L. Recognition of Revenues

(1) Sale of goods

Revenue from the sale of goods is measured according to the fair value of the consideration received or to be received, after deducting returns, discounts, commercial discounts and quantity discounts. In cases where the credit period is short and constitutes the accepted credit period allowed in the sector, the future payment is not discounted. The Group recognizes the revenue when the significant risks and rewards from ownership of the merchandise are transferred to the buyer, receipt of the consideration is expected, it is possible to reliably estimate the chance that the goods will be returned and the costs that were incurred or will be incurred for the transaction can be reliably estimated, when the management has no ongoing involvement in the goods and the revenue can be reliably estimated. Transfer of the risks and rewards changes in accordance with the specific conditions of the sale contract.

(2) Income from voyages and accompanying services

Income and expenses relating to cargo traffic are recognized on the basis of percentage of completion of voyages. Percentage of completion is determined as the ratio of the number of days from the beginning of the voyage to the balance sheet date to the total estimated duration of the voyage, which, in the opinion of management, is not materially different from the ratio of the number of ports at which the vessel calls from the beginning of the voyage to the balance sheet date to total number of ports at which the vessel calls during the voyage and does not necessarily constitute an indication of the rate of progress of each container. Estimated losses on voyages are provided for in full. Income from related services is recognized at the time the service is provided.

Note 3 – Significant Accounting Policies (Cont.)

L. Recognition of Revenues (Cont.)

(3) Construction contracts

Revenues and expenses from construction contracts are recorded on the statement of income, in proportion to the percentage of completion of the contract, where it is possible to reliably estimate its results. Revenues from a construction contract include the original amount included in the contract plus amounts relating to changes in the work order, claims and incentives, provided income is expected and it can be reliably measured.

The estimate of the percentage of completion is based on the cost of the work performed. Where it is not possible to reliably estimate the results of a construction contract, the revenues from the said contract is recognized only in an amount equal to the costs that can reasonably expected to be recovered. An anticipated loss from a construction contract is recorded immediately on the statement of income.

(4) Income from services

Income from services provided is recorded in the statement of income upon provision of the service if the flow of the economic benefits relating to provision of the service is certain.

(5) Government grants

Government grants are initially recognized when there is reasonable certainty that they will be received and the Group will comply with the conditions entitling their receipt.

Government grants received for purposes of acquisition of an asset are presented as an offset from the related asset and are recorded on the statement of income on a systematic basis over the useful life of the asset.

Grants received from the Government of Israel in respect of the cost of employing Israeli-resident sailors on Israeli ships are credited against the salary cost.

Grants received from the Chief Scientist for research and development projects are treated as forgivable loans, in accordance with the provisions of IAS 20. Accordingly, grants received from the Chief Scientist are recognized as liabilities according to their fair value on the date the grants were received unless it was reasonably certain on that date that the amount received would not be returned. The amount of the obligation is re-examined in each period and any changes in the present value of the cash flows, discounted at the original interest of the grant, are recorded in the statement of income.

M. Sale of Customer Debts

Sale of financial assets is recognized as a sale where control over the financial asset is transferred in full to an unrelated third party and all the risks and rewards inherent in the asset are transferred to an unrelated third party.

Note 3 – Significant Accounting Policies (Cont.)

N. Payment of Lease Fees

Payments under an operating lease are recorded on the statement of income using the straight-line method over the term of the lease period.

Minimum lease payments made as part of a financing lease are divided between the financing expenses and reduction of the liability balance. The financing expenses are allocated to each period of the lease term, such that it receives a fixed periodic interest rate on the remaining balance of the liability. The lease payments are updated over the remaining term of the lease for contingent lease fees on the date the approval is received for the change in the lease conditions.

The minimum lease payments are updated for the contingent lease payments when the contingency is clarified.

O. Resource Exploration Costs and Valuation

Costs incurred in respect of the exploration for resources and their valuation are recognized as tangible and intangible assets based on their nature. The costs are presented at cost less accumulated depreciation and a provision for decline in value.

The cost includes, among other things, costs of performing studies, drilling costs and operations in connection with evaluating the technical feasibility of the commercial capability of production of the resources.

P. Financing Income and Expenses

Financing income includes income from interest on amounts invested (including financial assets available for sale), income from dividends, income from sale of financial assets classified as available for sale, changes in the fair value of financial assets presented at fair value through the income statement, gains from foreign currency and gains from derivative financial instruments recognized in the statement of income. Interest income is recognized as accrued, using the effective interest method. Dividend income is recognized on the date the Group is granted the right to receive the payment. If a dividend is received in respect of marketable shares, the Group recognizes dividend income on the ex-dividend date.

Financing expenses include interest on loans received, changes in the time value of provisions, changes in the fair value of financial assets presented at fair value through the income statement, dividends paid on preferred shares classified as a liability, costs in respect of securitization transactions, losses from impairment of value of certain financial assets, losses from derivative financial instruments, changes due to the passage of time in liabilities in respect of defined benefit plans for employees and income deriving from revaluation of the assets of a defined benefit plan for employees. Credit costs, which are not capitalized, are recorded on the income statement using the effective interest method.

Gains and losses from exchange rate differences are reported on a net basis.

Note 3 – Significant Accounting Policies (Cont.)

Q. Tax Expenses on Income

Tax expenses on income include current and deferred taxes. Tax expenses on income are recorded in the income statement unless the tax originated in a transaction or event that is recognized directly in shareholders' equity. In these cases, the tax expenses on income are charged to shareholders' equity.

The current tax is the amount of tax that is expected to be paid on the taxable income for the year, which is calculated according to the tax rates in effect according to the law that was finally legislated or effectively legislated as at the balance sheet date, and includes changes in tax payments attributed to prior years.

Recognition of deferred taxes is according to the balance sheet approach, relating to temporary differences between the book values of the assets and liabilities for purposes of financial reporting and their value for tax purposes. The Corporation does not recognize deferred taxes for the following temporary differences: initial recognition of goodwill, initial recognition of assets and liabilities for transactions that do not constitute a business combination and do not impact the accounting income and the income for tax purposes, as well as differences deriving from investments in subsidiary and associated companies, if it is not expected that they will reverse in the foreseeable future. The deferred taxes are measured according to the tax rates that are expected to apply to the temporary differences at the time they are realized, on the basis of the law that was finally legislated or effectively legislated as at the balance sheet date. The Corporation offsets deferred tax assets and liabilities if there is an enforceable legal right to offset current tax assets and liabilities and they are attributed to the same taxable income and are taxed by the same tax authority for the same assessed company or different companies that intend to settle current tax assets and liabilities on a net basis or if the tax assets and liabilities are settled concurrently.

A deferred tax asset is recognized in the books when it is expected that in the future there will be taxable income against which the temporary differences can be utilized. Deferred tax assets are examined at each balance sheet date and, if it is not expected that the related tax benefits will be realized, they are reduced.

The Group could become liable for additional taxes in a case of distribution of intercompany dividends between the Group companies. These additional taxes were not included in the financial statements in light of the policy of the Group companies not to cause distribution of a dividend that involves additional taxes to the recipient company in the foreseeable future.

In cases where one of the Group companies is expected to distribute a dividend out of earnings involving additional tax to the recipient company, such company records a provision for tax in respect of additional tax for which it may be charged in connection with distribution of a dividend.

R. Earnings per Share

The Group presents basic and diluted earnings per share data for its ordinary share capital. The basic earnings per share are calculated by dividing income or loss allocable to the Group's ordinary equity holders by the weighted-average number of ordinary shares outstanding during the period. The diluted earnings per share are determined by adjusting the income or loss allocable to ordinary equity holders and the weighted-average number of ordinary shares outstanding for the effect of all potentially dilutive ordinary shares including options for shares granted to employees.

Note 3 – Significant Accounting Policies (Cont.)

S. Segment Information

A segment is a distinguishable component of the Group, which is engaged in provision of products or services that are likely to be interrelated (business segment) or provision of products or services in a defined economic environment (geographical segment), and which is exposed to risks and rewards that are different from those of the other segments. The Group's format for segment reporting is based on business segments and is determined on the basis of the Group's structure and its internal reporting.

The inter-segment pricing is determined on the basis of transaction prices in the ordinary course of business.

Segment results, assets and liabilities include items that are directly attributable to the segment and items that can reasonably be attributed to it. Items that were not allocated consist primarily of investments and the income attributed to them; loans and credit and the related expenses; corporate assets (especially the Corporation's headquarters); administrative and general expenses; as well as tax assets and liabilities and expenses for taxes on income.

Capital expenses of the segment are the total costs that were incurred during the period for purchasing fixed and intangible assets other than goodwill.

T. Concession Agreements (B.O.T.)

As part of the concession agreements (B.O.T.) with government entities for construction and operation of water desalinization facilities in exchange for fixed and variable payments, the Group recognizes a financial asset in its financial statements commencing from the start of the construction of the facilities. The financial asset reflects the government's debt and bears interest determined based on the customer's riskless interest rate plus an interest rate reflecting the appropriate risk. Operating and maintenance costs of the facility are recorded on the statement of income as incurred. The operating income was calculated based on the amount of the expenses recorded on the statement of income with the addition of a fixed margin.

U. Indices and Exchange Rates

Set forth below are the rates of change in the dollar exchange rates and the Consumer Price Index:

	Consumer Price Index	Dollar–Shekel Exchange Rate	Dollar–Euro Exchange Rate
	%	%	%
For the nine months ended:			
September 30, 2008	**4.4**	**(11.0)**	**4.5**
September 30, 2007	2.3	(5.0)	(7.1)
For the three months ended:			
September 30, 2008	**2.0**	**2.1**	**12.0**
September 30, 2007	1.3	(5.6)	(5.2)
For the year ended December 31, 2007	3.4	(9.0)	(10.5)

Note 3 – Significant Accounting Policies (Cont.)

V. New Standards and Interpretations not yet Adopted

1. IFRS 8 "Activity Segments" (hereinafter – "the Standard"). The Standard provides that the segment report is to be made in accordance with the "management approach", that is, in accordance with the internal reporting format used by the entity's decision makers. The Standard will apply to annual periods beginning on or after January 1, 2009. The Corporation is examining the impact of the Standard on its financial statements.

2. IAS 23, "Credit Costs", amended (hereinafter – "the Standard"). The Standard eliminates the possibility of recording the credit costs as expenses in the statement of income and requires the entity to capitalize to the cost of the asset credit costs that can be directly allocated to the acquisition, construction or development of a qualifying asset. The Standard will apply to annual periods beginning on or after January 1, 2009. In the Corporation's estimation, adoption of the Standard will have no impact on its financial statements.

3. IAS 1, "Presentation of Financial Statements", amended (hereinafter – "the Standard"). The Standard requires collection of information in the financial statements on the basis of common characteristics and presentation of a comprehensive statement of income. The Standard permits presentation of revenues and expense items as well as other total income items in the framework of a single comprehensive statement of income, which includes interim totals or, alternatively, to present two separate statements (a statement of income and afterwards a comprehensive statement of income). The names of some of the financial statements have been changed with the goal of clarifying their purposes (for example, the balance sheet will be called the statement of financial position). The Standard will apply to annual periods beginning on or after January 1, 2009. Early adoption is possible. The Corporation is examining the impacts of implementation of the Standard on its financial statements.

4. IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements" amended, (hereinafter – "the Standards"). The main changes in the new standards that are relevant to the Corporation are: a certain change in the definitions of a business and a business combination, a change in the way of measuring items transferred in a business combination, provision of two alternatives for measuring rights that do not provide control, a change in the treatment of transaction costs, treatment of an acquisition in stages, allocation of the overall revenue among all the shareholders, treatment as capital transactions for acquisitions or sales of rights where control is maintained, treatment according to the full fair values in transactions leading to loss of control or acquisition of control, so that the holdings remaining after the loss of control will be presented at fair value against recording the difference between the fair value and the book value to the statement of income while the initial investment in gaining control is also valued according to fair value through the statement of income, and expansion of the disclosure requirements.

   The new Standards will apply to annual periods beginning July 1, 2009 and thereafter. It is possible to apply them in advance (only both Standards together). IFRS 3 will apply to business combinations that are executed after its commencement date. IAS 27 will apply retroactively, except for the allocation of the overall revenue among the shareholders, treatment of changes in rights in a subsidiary after acquiring control, and treatment of the loss of control in a subsidiary – which will be applicable from its commencement date. The Corporation is examining the impacts of implementation of the Standard on its financial statements.

Note 3 – Significant Accounting Policies (Cont.)

V. New Standards and Interpretations not yet Adopted (Cont.)

5. IFRS 2 "Share-Based Payments", amended (hereinafter – "the Standard"). The Standard provides a number of changes in the definition of the vesting conditions of share-based payments and regarding the manner of measuring share-based payments. The Standard will be applied retroactively for annual periods after January 1, 2009. Early application is permitted along with disclosure thereof. In the Corporation's estimation, adoption of the Standard will not have a significant impact on its financial statements.

6. IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" amended (hereinafter – "the Standards"). The Standards provide a number of changes with respect to classification of certain financial instruments as equity or debt and they expand the disclosure requirements regarding such instruments. In addition, proper disclosure is required for realizable instruments classified as equity. The new Standards apply to annual periods beginning on or after January 1, 2009. The Corporation is examining the impacts of implementation of the Standard on its financial statements.

7. IFRIC 13 "Customer Loyalty Programs" (hereinafter – "the Clarification"). The Clarification provides that sales of goods and services with respect to which the Corporation grants award credits to its customers are to be accounted for as multiple element transactions, and the payment received from the customer is to be allocated between its various elements based on the fair value of the award credits. The proceeds attributed to the award are to be recognized as revenue when the award credits are redeemed and the Corporation's obligation to provide the awards is fulfilled.

   The Clarification's provisions apply to annual reporting periods beginning on or after July 1, 2008 and are implemented by means of retroactive application. Corporation Management estimates that implementation of the Standard will have no effect on the Group's financial statements.

8. IAS 27 – "Consolidated and Separate-Company Financial Statements" and IFRS 1 – "First-Time Adoption of International Financial Reporting Standards, Amended" (hereinafter – "the Standards"). Pursuant to the Standards after their amendment, a company that elects the cost method in the measurement of its investments in subsidiaries, jointly-controlled companies and associated companies, within the framework of the separate-company financial statements may measure the said investments on the transition date to IFRS according to fair value, pursuant to IAS 39 or according to their book value pursuant to previous generally accepted accounting principles. Similarly, a dividend received from subsidiaries, jointly-controlled companies and associated companies will be recognized as income in the separate-company statements of the holding company. It was further provided that in certain cases receipt of a dividend constitutes an indication of impairment in value of the investment in the investee company.

   The new Standards will apply to annual periods commencing on or after January 1, 2009. Early application is possible, separately for each standard, while providing disclosure. The changes attributable to IAS 27 will be applied prospectively.

Note 3 – Significant Accounting Policies (Cont.)

V. New Standards and Interpretations not yet Adopted (Cont.)

9. Within the scope of the project for amending the international standards "Improvements to IFRS", in May 2008 the IASB published and approved amendments to 35 different international standards covering a wide range of accounting issues. The amendments are divided into two categories: (1) amendments regarding presentation, recognition and measurement having accounting implications; and (2) amendments relating to the terms and drafting of the international standards, which are expected to have minimal effect, if any, on the accounting aspect.

   Most of the amendments will apply to periods commencing on or after January 1, 2009, with the possibility of early adoption, subject to the conditions provided for each amendment and subject to the transitional provisions related to the first-time adoption of IFRS. The Corporation is examining the impacts of implementation of the Standard on its financial statements.

10. IFRIC 15, "Agreements regarding Construction of Real Estate Properties" (hereinafter – "the Commentary"). The Commentary provides guidelines for examining whether transactions involving construction of real estate properties are covered by IAS 18, "Revenues", whereby the income from construction of real estate properties is to be recognized at the same time and in the same manner as income from sale of a product or service, or by IAS 11, "Construction Contracts", whereby the income is to be recognized based on the percentage of completion of the real estate property.

    The Commentary is to be applied for annual periods commencing on or after January 1, 2009, by means of retrospective application. Early application is permitted along with provision of proper disclosure.

11. IFRIC 16, "Hedging a Net Investment in Foreign Activities" (hereinafter – "the Commentary"). The Commentary relates to cases wherein there is an investment in foreign activities and provides guidelines regarding hedging such an investment. Among other things, the Commentary addresses the nature of the hedged risk and the amount of the hedged item with respect to which hedge ratios are designated, the position of the hedging item within the group companies and treatment of the capital reserve on the date of elimination of the foreign activities.

    The Commentary applies to annual periods commencing on or after October 1, 2008. Early application is permitted along with provision of proper disclosure.

12. Items Qualified for Hedging, Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" (hereinafter – "the Standard"). The Standard clarifies that it is possible to designate as a hedged item changes in cash flows or changes in the fair value of a one-sided risk – that is, a risk that will be designated as the risk of exposure to fluctuations above or below a certain specified price or variable. The Standard further clarifies that an inflationary element may be designated as a separate risk, provided that it is contractually specified in the cash flows of a CPI-linked debenture, so that it may be separately identified and reliably measured, and provided that the remaining cash flows of the instrument are not affected by the inflationary element.

    The Standard is to be applied retroactively for annual periods commencing July 1, 2009 and thereafter. Early application is possible along with provision of disclosure. The Corporation is examining the impacts of implementation of the Standard on its financial statements.

Note 4 – Information on Activity Segments

A. General

The Group operates in the segments that are described below:

ICL Fertilizers – ICL Fertilizers mines and processes potash, mines and processes phosphate rock, and produces agricultural phosphoric acid, phosphate fertilizers, compound fertilizers, based mainly on potash and phosphate, and specialty fertilizers. ICL Fertilizers markets these products worldwide, mainly to Europe, Brazil, India, China and Israel. This segment is comprised of two sub-segments: potash and phosphate.

ICL Fertilizers extracts potash from the Dead Sea and mines potash from subterranean mines in the UK and in Spain. ICL Fertilizers mines phosphate rock from open-air mines in the Negev, and also produces sulfuric and phosphoric acid in Israel and fertilizers in Israel, the Netherlands and Germany. In addition, the activity of Mifalei Tovala Ltd., which engages in the transportation of cargo, mainly of ICL companies in Israel, is included in the ICL Fertilizers segment.

ICL Industrial Products – ICL Industrial Products produces bromine out of a solution that is created as a by-product of the potash production process in Sdom, as well as bromine-based compounds. ICL Industrial Products uses most of the bromine it produces for self-production of bromine compounds on production sites in Israel, the Netherlands and China. In addition, ICL Industrial Products extracts salt, magnesia and chlorine from Dead Sea brine, and produces chlorine based products in Israel and the United States. In addition, ICL Industrial Products is engaged in manufacture and marketing of flame-retardants and additional products on a phosphorous basis.

ICL Performance Products – ICL Performance Products processes some of the agricultural phosphoric acid produced by ICL Fertilizers, using it to produce downstream products with high added value. These products include phosphoric acid (food grade and technical grade), phosphate salts, food additives, and hygiene products for the food industry. ICL Performance Products also produces specialty products, based on aluminum compounds, and other raw materials. Production is mostly carried out on production sites in Europe, (particularly in Germany) and the United States, as well as in Israel, China, and other countries. The water treatment operation, which is included in the ICL Performance segment, was acquired in January 2008. See Note 7E1.

Shipping – ZIM Integrated Shipping Services Ltd. (hereinafter – “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, and it provides marine transport services to customers in a variety of industrial and manufacturing industries. ZIM’s shipping activities are managed by regional and district locations. ZIM’s activities are supported by an international infrastructure of a large number of agencies wholly or partly owned by ZIM, as well as through offices of independent agents.

ZIM provides services that accompany its shipping activities, mainly through subsidiaries, including, forwarding and customs clearing services, container and bonded terminals, container repair terminals, overland transport services and insurance. At the date of this report, the extent of the auxiliary activities is not material.

Note 4 – Information on Activity Segments (Cont.)

A. General (Cont.)

Energy – Oil Refineries Ltd. (hereinafter – "ORL") and its subsidiaries are industrial companies operating in Israel and are engaged, mainly, in refining crude oil and interim products, sale of finished and interim fuel products to domestic (Israeli) and foreign customers, provision of personnel services (electricity and steam). The plants of the consolidated companies are integrated with ORL's plants and constitute extension plants. ORL was sold at the beginning of 2006 and acquired in 2007.

In addition to the segments described above, the Corporation has other activities, such as, production and marketing of pure magnesium and magnesium alloys, metallurgy, water desalinization, advanced technology, manufacture of and trade in polymers and aromatic products, and production of electricity.

Note 4 – Information on Activity Segments (Cont.)

B. Information relating to Business Segments

	Fertilizers										
	Potash	Phosphate	Elimin-ations	Total	Industrial products	Performance products	Shipping	Energy	Other activities	Elimin-ations & unrelated expenses	Total consolidated
	Unaudited										
	Millions of Dollars										
For the nine months ended September 30, 2008											
Other operating sales and revenues, net:											
Unaffiliated customers	**2,129**	**1,328**	**–**	**3,457**	**988**	**1,152**	**3,382**	**6,981**	**458**	**–**	**16,418**
Inter-segment activities	**244**	**151**	**(108)**	**287**	**5**	**49**	**18**	**1**	**48**	**(408)**	**–**
Total other operating sales and revenues, net	**2,373**	**1,479**	**(108)**	**3,744**	**993**	**1,201**	**3,400**	**6,982**	**506**	**(408)**	**16,418**
Operating income (loss)	**1,365**	**552**	**(19)**	**1,898**	**96**	**221**	**(106)**	**165**	**(22)**	**7**	**2,259**
Share in income (losses) of associated companies	**4**	**4**	**–**	**8**	**6**	**–**	**12**	**–**	**(64)**	**–**	**(38)**
For the nine months ended September 30, 2007											
Other operating sales and revenues, net:											
Unaffiliated customers	830	511	–	1,341	634	812	2,737	1,288	194	–	7,006
Inter-segment activities	108	61	(37)	132	5	17	16	1	15	(186)	–
Total other operating sales and revenues, net	938	572	(37)	1,473	639	829	2,753	1,289	209	(186)	7,006
Operating income (loss)	259	84	–	343	111	77	57	47	(8)	(38)	589
Share in income (losses) of associated companies	1	1	–	2	2	–	8	(6)	(34)	–	(28)

Note 4 – Information on Activity Segments (Cont.)

B. Information relating to Business Segments

	Fertilizers										
	Potash	Phosphate	Eliminations	Total	Industrial products	Performance products	Shipping	Energy	Other activities	Eliminations & unrelated expenses	Total consolidated
	Unaudited										
	Millions of Dollars										
For the three months ended September 30, 2008											
Other operating sales and revenues, net:											
Unaffiliated customers	**835**	**485**	**–**	**1,320**	**340**	**446**	**1,182**	**2,625**	**165**	**–**	**6,078**
Inter-segment activities	**102**	**66**	**(48)**	**120**	**2**	**20**	**5**	**–**	**25**	**(172)**	**–**
Total other operating sales and revenues, net	**937**	**551**	**(48)**	**1,440**	**342**	**466**	**1,187**	**2,625**	**190**	**(172)**	**6,078**
Operating income (loss)	**598**	**176**	**(13)**	**761**	**23**	**104**	**(31)**	**51**	**(31)**	**40**	**917**
Share in income (losses) of associated companies	**4**	**4**	**–**	**8**	**6**	**–**	**2**	**–**	**(55)**	**–**	**(39)**
For the three months ended September 30, 2007											
Other operating sales and revenues, net:											
Unaffiliated customers	318	175	–	493	224	296	1,046	1,288	102	–	3,449
Inter-segment activities	40	21	(15)	46	2	5	6	1	5	(65)	–
Total other operating sales and revenues, net	358	196	(15)	539	226	301	1,052	1,289	107	(65)	3,449
Operating income (loss)	116	42	–	158	25	29	42	47	(1)	(34)	266
Share in income (losses) of associated companies	1	1	–	2	2	–	3	(6)	(14)	–	(13)

Note 4 – Information on Activity Segments (Cont.)

B. Information relating to Business Segments (Cont.)

	Fertilizers									Elimin-ations &	
	Potash	Phosphate	Elimin-ations	Total	Industrial products	Performance products	Shipping	Energy	Other activities	unrelated expenses	Total consolidated
	Audited										
	Millions of Dollars										
For the year ended December 31, 2007											
Other operating sales and revenues, net:											
Unaffiliated customers	1,228	729	–	1,957	919	1,078	3,786	2,861	312	–	10,913
Inter-segment activities	158	85	(51)	192	6	24	23	–	24	(269)	–
Total other operating sales and revenues, net	1,386	814	(51)	2,149	925	1,102	3,809	2,861	336	(269)	10,913
Operating income (loss)	405	122	(1)	526	140	91	58	124	(19)	(63)	857
Share in income (losses) of associated companies	–	–	–	–	–	–	11	2	(36)	–	(23)

Note 5 – Equity, Reserves and Retained Earnings

Detail of additional movement in equity

	Attributable to the Corporation's equity holders					Minority interest	Total equity
	Share capital and premium	Translation reserve of foreign operations	Capital reserves	Retained earnings	Total		
	Unaudited						
	Millions of Dollars						
For the nine months ended September 30, 2008							
Balance at January 1, 2008	**273**	**51**	**6**	**1,147**	**1,477**	**1,895**	**3,372**
Share-based payments in subsidiary	**–**	**–**	**–**	**–**	**–**	**6**	**6**
Share-based payments in the Corporation	**–**	**–**	**5**	**–**	**5**	**–**	**5**
Dividend to equity holders in the Corporation	**–**	**–**	**–**	**(50)**	**(50)**	**–**	**(50)**
Dividend to minority interest in subsidiary	**–**	**–**	**–**	**–**	**–**	**(322)**	**(322)**
Minority interest in acquisition of subsidiary	**–**	**–**	**–**	**–**	**–**	**22**	**22**
Acquisition by subsidiary of its own shares	**–**	**–**	**–**	**–**	**–**	**(95)**	**(95)**
Issuance of shares to minority interest in subsidiary	**–**	**–**	**–**	**–**	**–**	**2**	**2**
Total income for the period	**–**	**8**	**(9)**	**599**	**598**	**872**	**1,470**
Balance at September 30, 2008	**273**	**59**	**2**	**1,696**	**2,030**	**2,380**	**4,410**
For the nine months ended September 30, 2007							
Balance at January 1, 2007	273	–	5	1,022	1,300	816	2,116
Share-based payments in subsidiary	–	–	–	–	–	6	6
Share-based payments in the Corporation	–	–	1	–	1	–	1
Dividends to the equity holders in the Corporation	–	–	–	(60)	(60)	–	(60)
Dividend to minority interest in subsidiary	–	–	–	–	–	(212)	(212)
Issuance of shares to minority interest in subsidiary	–	–	–	–	–	80	80
Minority interest in acquisition of subsidiary	–	–	–	–	–	989	989
Total income for the period	–	23	2	168	193	187	380
Balance at September 30, 2007	273	23	8	1,130	1,434	1,866	3,300

Note 5 – Equity, Reserves and Retained Earnings

Detail of additional movement in equity

	Attributable to the Corporation's equity holders					Minority interest	Total equity
	Share capital and premium	Translation reserve of foreign operations	Capital reserves	Retained earnings	Total		
	Unaudited						
	Millions of Dollars						
For the three months ended September 30, 2008							
Balance at July 1, 2008	**273**	**90**	**8**	**1,500**	**1,871**	**2,293**	**4,164**
Dividend to equity holders interest in the Corporation	**–**	**–**	**–**	**(50)**	**(50)**	**–**	**(50)**
Share-based payments in the Corporation	**–**	**–**	**2**	**–**	**2**	**–**	**2**
Dividend to minority interest in subsidiary	**–**	**–**	**–**	**–**	**–**	**(146)**	**(146)**
Acquisition by subsidiary of its own shares	**–**	**–**	**–**	**–**	**–**	**(95)**	**(95)**
Total income for the period	**–**	**(31)**	**(8)**	**246**	**207**	**328**	**535**
Balance at September 30, 2008	**273**	**59**	**2**	**1,696**	**2,030**	**2,380**	**4,410**
For the three months ended September 30, 2007							
Balance at July 1, 2007	273	7	7	1,122	1,409	1,774	3,183
Share-based payments in the Corporation	–	–	1	–	1	–	1
Share-based payments in subsidiary	–	–	–	–	–	2	2
Issuance of shares to minority interest in subsidiary	–	–	–	–	–	65	65
Dividend to minority interest in subsidiary	–	–	–	–	–	(45)	(45)
Share of minority in acquisition of subsidiary	–	–	–	–	–	(15)	(15)
Total income for the period	–	16	–	8	24	85	109
Balance at September 30, 2007	273	23	8	1,130	1,434	1,866	3,300

Note 5 – Equity, Reserves and Retained Earnings (Cont.)

Detail of additional movement in equity (Cont.)

	Attributable to the Corporation's equity holders					Minority interest	Total equity
	Share capital and premium	Translation reserve of foreign operations	Capital reserves	Retained earnings	Total		
	Audited						
	Millions of Dollars						
For the year ended December 31, 2007							
Balance at January 1, 2007	273	–	5	1,022	1,300	816	2,116
Share-based payments (net of tax) in subsidiary	–	–	–	–	–	9	9
Share-based payments in the Corporation	–	–	2	–	2	–	2
Dividends to equity holders	–	–	–	(60)	(60)	–	(60)
Tax benefit in respect of issuance of shares to employees in subsidiary	–	–	–	–	–	2	2
Issuance of shares to minority interest in subsidiary	–	–	–	–	–	80	80
Share of minority in acquisition of subsidiaries	–	–	–	–	–	979	979
Dividend to minority interest in subsidiary	–	–	–	–	–	(299)	(299)
Total income for the period	–	51	(1)	185	235	308	543
Balance at December 31, 2007	273	51	6	1,147	1,477	1,895	3,372

Note 6 – Taxes on Income

On February 26, 2008, the Knesset enacted the Income Tax Law (Adjustments for Inflation) (Amendment No. 20) (Restriction of Effective Period) – 2008 (hereinafter – the Amendment). In accordance with the Amendment, the effective period of the Adjustments Law will cease at the end of the 2007 tax year and as from the 2008 tax year the provisions of the law shall no longer apply, other than the transitional provisions intended at preventing distortions in the tax calculations.

In accordance with the Amendment, as from the 2008 tax year income for tax purposes will no longer be adjusted to a real (net of inflation) measurement basis. Furthermore, the depreciation of inflation immune assets and carried forward tax losses will no longer be linked to the CPI, so that these amounts will be adjusted until the end of the 2007 tax year after which they will cease to be linked to the CPI.

Subsequent to balance sheet date, on November 16, 2008, Amendment No. 65 to the Law for Encouragement of Capital Investments, 2008, was approved, pursuant to which the period between commencement of the "placed in service" year for the Approved Enterprises under the "Alternative Benefits Track" and commencement of the "election" year for the Benefited Enterprises (hereinafter – "the Cooling Off Period") was shortened from five years to three years, retroactively commencing from April 1, 2005. In the Company's estimation, change of the Law will be reflected in a decrease in the provision for taxes. In the estimation of some of the Group companies, the change in the Law will be reflected in a decrease in the provision for taxes. The Group is examining the monetary impact of the change of the Law on its financial position and results of operations.

Note 7 – Additional Information

A. Change in Estimate

International Accounting Standard IAS 16, regarding "Fixed Assets", provides that the useful life of an asset shall be reviewed at least at the end of every financial year, and if the expectations are different from the prior estimates, the change is to be treated as a change in an accounting estimate, in accordance with international Accounting Standard IAS 8, regarding "Accounting Policy, Changes in Accounting Estimates and Errors".

Based on opinions received (mostly internal opinions and one opinion from an external independent appraiser), the Group changed the estimate of the remaining useful life of the fixed assets reflecting an extension of the depreciation period as part of the financial statements prepared in accordance with IFRS, commencing from January 1, 2007. Based on an estimate made, the depreciation period of the some of the facilities of a Group subsidiary was extended to 25 years, commencing from January 1, 2007.

On the basis of the Group's past experience, the cost of assets that have been fully depreciated and that are still used for manufacturing is significant. Furthermore, the Group has re-examined the useful life of the fixed assets as compared to the industry in which it operates, the level of maintenance of the facilities and the functioning of the facilities over the years. According to this examination the remaining period of depreciation of the fixed assets is lower than the balance of the anticipated useful life of the facilities. On the basis of this assessment, the Group decided to change the estimate of the economic useful life of the fixed assets. The change in estimate is based on the experience accumulated by the Group and not on changes that have occurred in the assets or in the business environment. The previous estimate of the useful life of the Group's fixed assets was performed in 2002. The assessment was also based on the accumulated experience of the Group.

Note 7 – Additional Information (Cont.)

B. Dividend

On August 24, 2008, the Corporation's Board of Directors decided to distribute a dividend in the amount of $50 million. The dividend was paid on September 23, 2008.

C. ZIM

1. In February 2008, the Audit Committees and Boards of Directors of ZIM and the Corporation approved extension of the lease period, on market terms, for periods not in excess of 5 years, with respect to the ships leased to ZIM by companies owned by interested parties in the Corporation, where the last lease period does not exceed 5 years.

2. In March 2008, ZIM signed an agreement with a third party (unrelated) for sale of one ship having a capacity of 2,450 TEUs (which was acquired by ZIM in July 2007) at the price as it is denominated in the acquisition contract in Japanese yens (back-to-back) and a re-lease thereof for a period of 15 years. ZIM has an option to acquire the ship at the end of the period, for a price of $13.5 million or, alternatively, to extend the lease period by an additional 5 years, at the conclusion of which it will acquire the ship for a price of $1.

3. In May 2008, ZIM signed agreements for leasing of two ships having a capacity of 4,860 TEUs each from a third party (unrelated). The ships were leased by ZIM for a period of 7 years at a daily lease fee of $32,587 per ship.

4. In June 2008, ZIM published a proposal to its shareholders to acquire ZIM shares by means of a rights offering, based on a value for the company of $500 million, such that every 2 shares of ZIM will confer the right to acquire one share. The Corporation responded affirmatively to the proposal and invested the amount of about $246 million in exchange for 10,393,788 shares of ZIM. After the issuance, the rate of Corporation's holdings in ZIM increased from about 98.4% to about 99.1%.

5. In 2007, ZIM signed an agreement for sale of 2 ships having a capacity of 6,350 TEUs each on the date of their receipt from the shipbuilder. In the third quarter of the period of the report, one of the two ships was received and was delivered to purchasers in exchange for the amount of about $111 million. The capital gain realized by ZIM amounted to about $33 million (about $25 million after taxes). The other ship is expected to be received in 2009.

D. Oil Refineries (ORL)

- Merger of Carmel Olefins Transaction

  On September 24, 2008, ORL signed an agreement with Israel Petrochemicals Enterprises Ltd. (hereinafter – "IPE"), which was approved by the General Meeting of ORL's shareholders on August 13, 2008. The main points of the agreement are as follows:

Note 7 – Additional Information (Cont.)

D. Oil Refineries (ORL)(Cont.)

- Merger of Carmel Olefins Transaction (Cont.)

1. On the closing date of the transaction, IPE will sell to ORL all the shares it owns in Carmel Olefins, constituting 50% of Carmel Olefins' issued share capital, such that following the acquisition ORL will hold all of Carmel Olefins' issued share capital. In consideration for the shares of Carmel Olefins acquired, ORL will issue ordinary shares to IPE, constituting (after the issuance and without dilution), 20.53% of ORL's issued share capital and its voting rights (hereinafter – "the Shares Issued")

2. On the closing date of the transaction, ORL will sell to IPE all the IPE shares it owns, constituting 12.29% of IPE's share capital, in consideration for $40 million.

3. As a precondition for closing the transaction after complying with all the other preconditions and prior to issuance of the shares to be issued to IPE as stated above, the Company will distribute a dividend to its shareholders in the amount of $60 million (hereinafter – "the First Dividend"). In addition, on the closing date the transaction, the Company's Board of Directors will resolve to distribute an additional dividend of $100 million (hereinafter – "the Second Dividend") and the shares issued will participate in such distribution.

   Closing of the transaction is subject to meeting a number of preconditions by December 31, 2008, including, among others, the receipt of regulatory approvals including approval of the Supervisor of Restrictive Business Practices and receipt of a permit by IPE pursuant to the Government Companies Order (Declaration of the State's Vital Interests in Oil Refineries Ltd.), 2007 (hereinafter – "the Interests Order") to purchase and hold the issued shares (as required by the Law); receipt of approvals from the competent authorities in accordance with law from each of the companies for execution of the transaction and the operations involved therein; approvals from third parties required according to agreements, undertakings, licenses and approvals of Carmel Olefins detailed in the agreement; receipt of approval from the debenture holders of IPE or their trustee; confirmation that that during the period from the date the agreement is signed and until the closing date, no events occurred as a result of which representations of ORL or representations of IPE, as relevant, were incorrect and which cause in the aggregate a reduction of the value of the Carmel Olefins shares acquired or the value of the shares issued, as relevant, in an amount exceeding $50 million; and payment of the first dividend. As at the date of the report, IPE had not yet received a permit pursuant to the Interests Order or an approval from the Taxes Authority in accordance with Section 103 of the Income Tax Ordinance, nor have approvals been received from some of the third parties.

4. If all the preconditions are not met by December 31, 2008, the agreement will terminate. If all the preconditions are met and on the same date an application for approving a distribution pursuant to the agreement by one of the parties is pending before the court, the last date for complying with the preconditions will be postponed to March 31, 2009. Each of the dates stated above may be extended with the agreement of the parties, by a resolution adopted by their Boards of Directors.

Note 7 – Additional Information (Cont.)

D. Oil Refineries (ORL)(Cont.)

- Merger of Carmel Olefins Transaction (Cont.)

5. Included in the agreement are undertakings of the parties in respect of the manner of their operations in the interim period, from the signing date the agreement until the closing of the transaction. If there is a material change for the worse in respect of the representations given by one of the parties to the agreement, which results in the value of the shares acquired of Carmel Olefin or the Shares Issued, as the case may be, declining by $50 million or more, the party adversely affected by the change may withdraw from the agreement.

6. ORL undertook that if its distribution of the first or Second Dividend does not meet the distribution tests prescribed in the Companies Law, ORL will apply to the court for approval. IPE made a similar commitment in relation to the purchase of its acquired shares.

7. A mechanism is included in the agreement to indemnify each of the parties for damages or losses resulting from the inaccuracy of a representation or declaration given by that party to the agreement (subject to exceptions). In general, the duty to indemnify will only apply after the cumulative amounts of all damages incurred to the injured party and for which it is entitled to indemnification exceeds $15 million, in which case the duty to indemnify will apply from $7.5 million up to the indemnification limit of $75 million. The eligibility for indemnification as stated is limited by time. Each party waived its right to claim indemnification from subsidiaries and officers of the other party in respect of inaccurate representations given in the context of the agreement.

8. ORL undertook not to carry out, and to ensure that Carmel Olefins would not carry out, activities set forth in section 103C of the Income Tax Ordinance (New Version), which will compromise the exemption to be given to IPE by the Taxes Authority in respect of the agreement.

On September 28, 2008, ORL and IPE signed an addendum to the agreement permitting completion of the agreement even without receipt of a control permit by IPE pursuant to the Interests Order (hereinafter – "the Control Permit"). The main points of the agreement are as follows:

9. ORL will declare the First Dividend within 3 business days of the date on which all the preconditions are fulfilled except for receipt of the Control Permit.

10. The completion date will fall on December 31, 2008 or such earlier date as will be agreed between the parties, subject to the fulfillment up to such date of all the preconditions, except for receipt of the Control Permit, subject to the possibility of extending the dates as stated in section 4 above.

11. On the completion date, ORL will issue to IPE 216,445,781 shares, which together with the shares held by IPE at that time, directly and indirectly, will constitute 23.99% of ORL's issued share capital (hereinafter – "the Immediate Issuance Shares").

Note 7 – Additional Information (Cont.)

D. Oil Refineries (ORL)(Cont.)

- Merger of Carmel Olefins Transaction (Cont.)

12. IPE will be entitled to issuance of 300,227,180 shares, constituting the balance of the issuance shares (hereinafter – "the Deferred Issuance Shares") subject to receipt of the Control Permit, renewal of the restraint of trade approval, and approval of the Stock Exchange for issuance of the balance of the Deferred Issuance Shares, to the extent they will have expired, and subject to agreement of the parties to which IPE's rights were pledged in accordance with the agreement, as will be required.

13. At the time of issuance of the Deferred Issuance Shares, IPE will be entitled to receive payment from the Company equal to the amount which IPE would have been entitled to receive as dividends if the Deferred Issuance Shares, had it been issued to it on the completion date, together with the income therefrom (hereinafter – "the Dividend Adjustment Amounts). ORL will deposit the above-mentioned amounts, upon distribution of each dividend, in an earmarked deposit to be managed by the attorneys of IPE and ORL (hereinafter – the Earmarked Deposit). The Earmarked Deposit will not be considered property of ORL, and ORL will not have any right therein and it will not be responsible in any way for its management, investment, balance or value. In addition, protection provisions will apply to the Deferred Issuance Shares in the event of execution of any capital transaction in ORL's shares.

14. The amount of the Second Dividend will in an amount to be determined such that the amount that will be distributed as a dividend together with the amount to be deposited in respect thereof in the Earmarked Deposit will be equivalent to $100 million.

15. IPE is entitled to instruct ORL to issue the Deferred Issuance Shares to a trustee on behalf of IPE and to transfer to the trustee the Dividend Adjustment Amounts at any time prior to receiving the Control Permit, subject to obtaining the approval of the competent authorities for issuance of the shares to a trustee and subject to the preconditions set forth in section 12 above, with the exception of receipt of the Control Permit. IPE will also be entitled to instruct ORL to issue the Deferred Issuance Shares and to transfer the Dividend Adjustment Amounts to a buyer as instructed by IPE.

16. Up to the issuance date of the balance of the Deferred Issuance Shares to IPE and/or to the trustee or a buyer, at any time that the rate of IPE's holdings in ORL's shares drops below 23%, ORL will issue to IPE, subject to the valid approval of the private placement by the Tel-Aviv Stock Exchange and subject to the agreement of the parties to which the rights of IPE are pledged under the agreement, to the extent required, shares such that after the issuance the rate of holdings of IPE in ORL's shares, directly or indirectly, will be 23.99% of ORL's issued share capital. IPE will be entitled to exercise its aforesaid right even if the rate of its holdings in ORL's shares will be higher than 23%.

Note 7 – Additional Information (Cont.)

D. Oil Refineries (ORL)(Cont.)

- Merger of Carmel Olefins Transaction (Cont.)

  17. Except to the extent that they were changed by the addendum to the agreement, all the agreement's provisions will continue to apply to the parties without any change.

  As at the signing date of the financial statements, ORL is negotiating with IPE for purposing of changing certain details in the transaction – changes that will not have a material impact on the transaction and its conditions vis-à-vis ORL, according to the requirements and limitations raised by the competent authorities, with the intention of completing the transaction by the end of this year.

- Agreement regarding Joint Control over ORL:

  1. On August 3, 2008, the Corporation signed an additional letter of undertaking, regarding the signing of an agreement for joint control over ORL, in favor of Israel Petrochemical Enterprises (hereinafter – "Petrochemical") and Petroleum Capital Holdings Ltd. (hereinafter – "Petroleum", Petrochemical and Petroleum jointly – "the Petroleum Group"), 100% of whose issued shares are held by Petrochemical (hereinafter – "the Third Letter of Undertaking"). The Third Letter of Undertaking replaced the Corporation's previous letters of undertaking, dated May 10, 2007 and June 1, 2008, regarding the signing of an agreement for joint control over ORL, which were cancelled, and to which were attached two draft agreements for joint control over ORL, which will become valid subject to the conditions detailed below.

  2. The Third Letter of Undertaking was signed following the agreement dated September 24, 2008, between Petrochemical and ORL (hereinafter – "the COL Agreement"), according to which, among other things, subject to the existence of certain conditions stated in the COL Agreement, Petrochemical would sell and transfer to ORL all its shares in Carmel Olefins Ltd. (hereinafter – "COL"), which constitute 50% of COL's issued share capital, in exchange for an issuance of ORL shares, constituting at that time 20.53% of ORL's issued share capital (hereinafter – "the Share Issuance"). The Third Letter of Undertaking and the attached draft agreements govern the joining of the Petrochemical Group to the control over ORL, upon fulfillment of certain conditions and according to various alternatives, prior to and after the closing of the COL Agreement, and in the event that the COL Agreement is cancelled by both parties or terminated due to non-compliance with the terms for its entry into effect, or due to its breach by one or both of the parties, while the parties do not have any claims for its enforcement (each of the above – "Annulment of the COL Agreement").

Note 7 – Additional Information (Cont.)

D. Oil Refineries (ORL)(Cont.)

- Agreement regarding Joint Control over ORL: (Cont.)

3. The Corporation and the Petrochemical Group have mutually undertaken that in the event that the COL Agreement is executed according to its terms, and the Petrochemical Group receives all the approvals required by law to enter into the joint agreement of control over ORL (including control according to the Government Companies Order (Declaration of Vital State Interests in Oil Refineries Ltd.), 2007) (hereinafter – "the Required Authorizations"), up to and not later than five years commencing from one day prior to the date of the Share Issuance (hereinafter – "the Five-Year Period"), then an agreement for joint control over ORL will be signed between the parties (hereinafter – "the Control Agreement After Execution of the COL Agreement") according to the draft attached to the Third Letter of Undertaking, and whose principles are similar to the agreements previously formulated between the parties, as follows:

3.1 The definition of core control shares in ORL: the core control shares in ORL will comprise 50.25% of the issued and paid-up share capital of ORL after the Share Issuance. The Corporation will hold 55% of the core control shares in ORL, while the Petrochemical Group will hold 45% of the core control shares in ORL. The remaining shares held by the parties will be considered free shares, except regarding their voting power that will be subject to the provisions applicable to the voting of the core control shares.

3.2 Freeze Period: the agreement establishes a freeze period of six months, commencing from the signing date of the control agreement (hereinafter – "The Freeze Period"), during which the core control shares may not be transferred by either of the parties.

3.3 Right of First Refusal: the parties will have a Right of First Refusal to purchase and to receive the transfer of all the core control shares offered for sale by the other party (hereinafter – "the Right of First Refusal"). It is hereby clarified that a party to the control agreement will be permitted to sell and/or transfer all, but not part of, the core control shares it holds at that time. The Right of First Refusal will also apply, with certain changes, in the case where a lien on the core control shares (if such a lien exists) is realized by the holder of the lien on these shares.

Note 7 – Additional Information (Cont.)

D. Oil Refineries (ORL)(Cont.)

- Agreement regarding Joint Control over ORL: (Cont.)

3. (Cont.)

3.3 (Cont.)

It was agreed, as part of the Right of First Refusal that a change in the control of Petrochemical or of the Corporation, as defined in the draft agreement and subject to the existence of certain conditions stated in the draft agreement, will confer on the other party the right to purchase the core control shares in ORL of the party in which a change in control was made, at the average market price in the 60 business days prior to the notification regarding the change in control, and with an added premium of 15%. The said right will inure to the Corporation in a case of the transfer of the direct control in Petrochemical, or a change is made in the direct or indirect holdings of the controlling shareholders in Petrochemical, in such a way that David Federman and/or his kin, on the one hand, and Yaakov Gottenstein and/or Alex Pesel, on the other hand, will cease being the holders of the direct or indirect controlling interest in Petrochemical, provided that the core control shares in ORL constitute the main assets of Petrochemical, that is, Petrochemical has no other assets (except for the core control shares, cash and cash equivalents), the value of which according to Petrochemical's last financial reports exceeds $200 million.

3.4 Right to Join: each party will have the right to join a sale of core control shares of the other party, provided that the Right of First Refusal has not been exercised (hereinafter – "the Right to Join").

3.5 Buy Me – Buy You Mechanism: at the end of the Freeze Period, each party to the agreement will have the right to exercise a buy me – buy you mechanism regarding the core control shares, whereby it may offer the other party to purchase all the core control shares held by the other party at a price stated in the proposal, or to sell to the other party all the core control shares it holds at the above stated price (hereinafter – "the Buy Me – Buy You Mechanism").

Note 7 – Additional Information (Cont.)

D. Oil Refineries (ORL)(Cont.)

- Agreement regarding Joint Control over ORL: (Cont.)

3. (Cont.)

3.6 Appointment of Directors: the parties to the control agreement will undertake, as part of the agreement, to use all their voting power at ORL's General Meetings, to select or appoint the members of ORL's Board of Directors, in the following manner: ORL's Board of Directors will comprise of 11 members (including 2 external directors), while the Corporation will recommend the appointment of 5 directors and the appointment of one external director, and Petrochemical Group will recommend the appointment of 4 directors and the appointment of one external director (hereinafter – "the Right for Full Representation on the Board of Directors"). It was determined, among other things, that the right of representation of the Corporation and the Petrochemical Group on ORL's Board of Directors, as stated above, will also relate to all committees of ORL's Board of Directors, excluding the Audit Committee and, to the extent possible, also to the Boards of Directors of all ORL's subsidiaries and associated companies.

3.7 Appointment of Executives and Advisors: subject to the provisions of law, the parties, in their capacity as shareholders in ORL, will act so that the appointment of ORL's CEO, the accountants, auditors and attorneys of ORL, ORL's subsidiaries and to the extent possible, of ORL's associated companies, will be made with agreement of the parties (hereinafter – "the Right to Participate in Appointment of Executives"). In addition, subject to the provisions of law, appointment of the Chairman of ORL's Board of Directors will be made based on the Corporation's recommendation.

3.8 Voting on Specific Issues: the parties will agree in advance on the manner of voting on several issues, if and to the extent they are placed on the day's agenda and are brought for decision at the General Meetings of ORL's shareholders, and in the absence of agreement the vote will be decided by an agreed-to arbitrator. It was also determined that the parties will act in order to amend ORL's Articles of Association so that decisions on those matters that are within the authority of ORL's Board of Directors will be transferred for the decision of the General Meeting of ORL's shareholders or that a decision in respect thereof will require a special majority of 75% of all present directors. Following is a list of these issues: (a) the entry of ORL or of any of its subsidiaries into new business areas; (b) the issuance of shares or other securities by ORL or by its subsidiary; (c) a change in the Articles of Association of ORL and/or of any of its subsidiaries and/or of any of its investee companies; (d) the merging or split-up or reorganization of ORL or of any of its subsidiaries; (e) transactions not in the ordinary course of ORL's business or of any of its subsidiaries or of any of its investee companies with an interested party; (f) the appointment of ORL's auditors; (g) dissolution or freezing of legal proceedings in ORL or in any of its subsidiaries and/or in any of its investee companies; and (h) a material sale or purchase transaction of ORL.

Note 7 – Additional Information (Cont.)

D. Oil Refineries (ORL)(Cont.)

- Agreement regarding Joint Control over ORL: (Cont.)

3. (Cont.)

3.9 Dividend Policy: the parties to the control agreement will act subject to any applicable law, so that ORL and its subsidiaries will adopt a dividend policy, according to which at least 75% of the annual distributable income will be distributed every year.

3.10 Agreement Period: the control agreement will become valid upon its signing and will end (a) according to its terms, or (b) from the time that one party ceases to hold at least 10% of ORL's share capital.

3.11 Additional Provisions: the agreement includes additional provisions customary in these types of agreements, including confidentiality, remedies, non-waiver of rights, arbitration, jurisdiction, etc.

4. So long as the COL Agreement has not been implemented, the Corporation and the Petrochemical Group have mutually undertaken that if all required approvals are received up to and not later than May 10, 2009 (hereinafter – "the Determining Date"), then at the request of the Petrochemical Group an agreement for joint control over ORL will be signed between the parties (hereinafter – "the Agreement for Control Prior to Execution of the COL Agreement"), according to the draft attached to the Third Letter of Undertaking, the control agreement of which is similar to the Agreement for Control After Execution of the COL Agreement, subject to the following changes:

4.1 The Call Option: Petroleum shall be given a call option to purchase and receive from the Company 230 million shares of ORL (hereinafter – "the Realization Shares"), where the price of the Realization Shares is the cost price of purchasing the core control shares purchased in the sale tender from the State of Israel on February 19, 2007, i.e., the amount of NIS 3.3 per share and a total of NIS 759 million, plus CPI linkage differences and interest at the annual rate of 5% and charged semi-annually from the acquisition date and after deduction of dividends distributed plus CPI linkage differences and interest as stated (hereinafter – "the Call Option"). The Call Option will be frozen so long as the COL Agreement has not been executed, and will be cancelled *ab initio* upon execution of the COL Agreement. The Call Option may be exercised by Petroleum, if at all, only from the date the COL Agreement is cancelled and up to the earlier of the Determining Date or up to 120 days from receiving the required authorizations.

Note 7 – Additional Information (Cont.)

D. Oil Refineries (ORL)(Cont.)

- Agreement regarding Joint Control over ORL: (Cont.)

4. (Cont.)

4.2 So long as the Call Option has not been exercised: (a) the Petrochemical Group will not be entitled to the Right of First Refusal; (b) the Corporation will not be entitled to the Right to Join; (c) the Buy Me – Buy You Mechanism will not apply; (d) the Right for Full Representation on the Board of Directors will not apply – instead, ORL's Board of Directors will consist of 9 members (including 2 external directors), while the Company will recommend the appointment of 5 directors, Petroleum will recommend the appointment of 2 directors and the recommendation regarding the appointment of the two external directors will be made in agreement between the parties; and (e) the Right to Participate in the Appointment of Executives will not apply. It is clarified that the rights specified above will become valid at the time of the exercise of the Call Option, if and when it is exercised, or when the Control Agreement After Execution of the COL Agreement is signed.

4.3 On the date that the COL Agreement is realized and the Control Agreement After Execution of the COL Agreement is signed, it will replace and annul the Control Agreement Prior to Execution of the COL Agreement, if and when signed and, among other things, the Call Option will be void *ab initio*.

5. Should annulment of the COL Agreement occur prior to the Determining Date for reasons not connected to an act, omission or activity of Petrochemical, and the Agreement for Control Prior to Execution of the COL Agreement has not yet been signed, then in such a case, and notwithstanding that stated in Section 1 above, the Corporation's Letter of Undertaking dated September 1, 2008 will be reinstated and will be effective together with the attached draft agreement of joint control over ORL (hereinafter – "the Second Letter of Undertaking"), and the Third Letter of Undertaking and the attached draft agreements will be considered null and void. According to the Second Letter of Undertaking, the Petrochemical Group is entitled, among other things, to transfer its rights according to the Second Letter of Undertaking to a third party which has obtained the required approvals up to the Determining Date, subject to the Corporation's Right of First Refusal.

Note 7 – Additional Information (Cont.)

D. Oil Refineries (ORL)(Cont.)

- Agreement regarding Joint Control over ORL: (Cont.)

6. On the signing date of the Third Letter of Undertaking, Petroleum signed an irrevocable letter of authorization (hereinafter – "the Letter of Authorization") that authorizes the Corporation to vote on its behalf at ORL's General Meetings for its holding of 235 million ORL shares (hereinafter – "the Authorization Shares"). The Letter of Authorization will become valid one day prior to the date of the Share Issuance and will be valid until earlier of the time of signing the Control Agreement After Execution of the COL Agreement or until the end of the Five-Year Period (hereinafter – "the Intermediate Period"). During the Intermediate Period Petroleum will not sell the Authorization Shares unless at the time of their sale the Petrochemical Group has given the Corporation an additional letter of authorization pertaining to the number of ORL shares that is identical to the number of shares to be sold, as stated, and in such a case the Letter of Authorization covering the shares sold will be void. In case the Authorization Shares are pledged as a security in favor of third parties that have provided credit to Petrochemical or Petroleum, the Letter of Authorization will be subject to the rights of the holder of the pledge, and in the case of realization of the pledge and the sale of the Authorization Shares to an unrelated third party (subject to the Corporation's Right of First Refusal), the Letter of Authorization will become void, and the Petroleum Group will issue an additional Letter of Authorization to the Corporation covering an identical number of shares as the shares sold.

7. According to the provisions of the Third Letter of Undertaking, the Corporation will be entitled to the Right of First Refusal even prior to the signing of an agreement of joint control over ORL. Until the signing of the control agreement, the Corporation will be entitled to use its control power in ORL based on its discretion and without any limitations deriving from its shares in ORL, and during the Intermediate Period – also under the Letter of Authorization.

8. ORL is conducting negotiations with IPE for purposes of changing certain details in the COL merger transaction and in accordance therewith discussions are being held between the Corporation and IPE in connection with making revisions to the Third Letter of Undertaking

- In the period of the report, ORL and Carmel Olefins (hereinafter – "the Companies") signed an agreement with a bank for sale of certain of their customer receivables. The agreement provides that the liabilities as expressed in invoices received by the bank for purposes of discounting are assigned from the Companies to the bank in accordance with the Debt Conversion Law, 1969, in an unequivocal, final and unconditional assignment, by means of the sale. The assignment is unconditional and may not be changed or cancelled without receipt of the bank's advance written consent.

  As at September 30, 2008, the balance of the amount discounted is $205 million.

Note 7 – Additional Information (Cont.)

E. Business Combinations

1. On January 28, 2008, a company in the Israel Chemicals Ltd. (hereinafter – "ICL") Group acquired the main assets and operations of a business unit of the German group Henkel that engages in water treatment in exchange for a cash payment of about €60 million (about $90 million). The financial statements include the results of operations of the business unit as from the date of its acquisition.

   The purchase price was allocated, at this stage, mainly to intangible assets (principally a patent and customer relations), about $59 million, and to goodwill about $26 million.

2. In June 2007, the Corporation acquired, through Inkia Energy Ltd. (hereinafter – "Inkia"), companies located in the Latin America and the Caribbean that are engaged in the production and sale of electricity in exchange for about $547 million (including $4 million of transaction costs). The excess cost created in Inkia on the acquisition amounted to about $234 million.

   Based on a "purchase price allocation" (PPA) performed by an outside appraiser, the impact of the acquisition on the assets and liabilities in the Inkia's financial statements is as follows:

	Book Value before Acquisition	Adjustment to Fair Value	Values Recognized in Acquisition	Amortization Years
	$ Millions			
Cash and cash equivalents	51	–	51	
Current assets	57	–	57	
Investments in associated companies	164	65	229	
Non-current assets	9	–	9	
Property, plant and equipment	244	146	390	14–46
Intangible assets	11	17	28	8–12
Current liabilities	(23)	–	(23)	
Deferred taxes	–	(42)	(42)	same as benefit
Non-current liabilities	(140)	–	(140)	
Minority interest	(60)	3	(57)	
Identified assets and liabilities, net	313	189	502	
Goodwill			45	
			547	

Note 7 – Additional Information (Cont.)

F. Events Occurring during the Period of the Report

1. In August and October 2007, the Corporation's Board of Directors approved participation in a venture for operation of electric-powered vehicles in the amount of $100 million, which will be concentrated, among other things, in the first stage, in establishment of a charging network for electric-powered vehicles (out of the amount of $200 million to be invested in the venture in the first stage by various investors), in exchange for about 33.33% of the rights in the vehicle venture. In January 2008, agreements were signed relating to the investment in the venture between the Corporation, additional investors and the initiator. During the period of the report, the amount of about $23 million was transferred to Better Place.

2. In May 2008, Tower signed an agreement for acquisition of shares of Jazz Technologies (hereinafter – "Jazz"), a leading company in the area of production of products having significant analogue components. Pursuant to the agreement, Tower will acquire shares of Jazz in a share swap transaction based on a value of Jazz's equity of $40 million, where each Jazz share will be converted against 1.8 Tower shares. In September 2008, the merger transaction was completed.

3. On August 19, 2008, a memorandum of understanding was signed between Tower and Bank Leumi Ltd. and Bank Hapoalim Ltd. (hereinafter – "Banks") and the Corporation, for restructuring Tower's debts in such a manner that there will be a significant decline in the scope of its debts to the Banks and to the Corporation. In September 2008, the merger transaction was completed. The highlights of the arrangement are set forth below:

   a. Highlights of the Arrangement with the Banks:

      1. $200 million of Tower's debt to the Banks will be converted into capital notes, exercisable for shares of Tower. The credit agreements signed with the Banks are to be amended accordingly. The conversion will be on the basis of a price per share of $1.42, which represents two times the average closing price per share on NASDAQ during the ten trading days prior to August 7, 2008 (which was the date of Tower's first public announcement regarding its debt restructuring negotiations).

      2. The repayment to the Banks of the remaining principal of the loans after the conversion (approximately $200 million) will be postponed until September 2010.

      3. The interest payments of Tower to the Banks pursuant to the credit agreements, originally due in the four quarters beginning September 30, 2008, were postponed and will be added to the debt principal, the payment of which is postponed such that it will begin in September 2010.

      4. The banks waived Tower's compliance with financial covenants regarding the last two quarters of 2008.

Note 7 – Additional Information (Cont.)

F. Events Occurring during the Period of the Report (Cont.)

3. (Cont.)

b. Highlights of the Arrangement with the Corporation:

1. $50 million of Tower's debt to the Company will be converted into capital notes, exercisable for shares of Tower. The said debt includes a loan of $30 million and $20 million of debentures (principal and accrued interest) that were issued to the Corporation in 2005. The debt conversion will be on the basis of the same price per share of the said debt conversion of the Banks.

2. The Corporation will invest $20 million in Tower against issuance of capital notes exercisable for 28,169,014 shares of Tower, where the number of shares was calculated based on the average price per Tower share on NASDAQ in the ten trading days prior to August 7, 2008 (which was the date of Tower's first public announcement regarding its debt restructuring negotiations).

3. The Corporation undertakes to provide to Tower, from time to time, for a period ending on December 31, 2009, with amounts the sum of which will not exceed $20 million. The said amounts will be invested in Tower in order to assist it with its cash flows in certain cases and in circumstances in which Tower will need such amounts. The said aggregate amount may be reduced by the amount Tower will manage to raise during the said period. In exchange for each payment by the Corporation, as aforesaid, Tower will issue to the Corporation capital notes, exercisable for shares of Tower. The conversion will be based on the lower of: (i) the average price per share on NASDAQ for the last ten trading days prior to the date on which each mentioned payment is made, or (ii) the share price as stated in Section 2 above.

c. After entry of the agreement into effect and after acquisition of shares of Jazz, the Corporation's share dropped (after the conversion of capital notes) to about 30% of Tower's share capital and the Corporation realized a capital gain in the amount of about $25 million.

4. During the period of the report, the Corporation raised about $139 million by means of increasing the debentures (Series 6) and about $92 million through the issuance of debentures (Series 8) bearing unlinked interest at the rate of 6.8% per year repayable in 4 equal annual payments commencing from December 31, 2011.

5. In the period of the report, 5,300 options for shares of the Corporation were issued by the trustee to 2 employees of a subsidiary (of which 5,000 options to an officer). (See also Note 20B(3) to the financial statements as at December 31, 2007).

Note 7 – Additional Information (Cont.)

F. Events Occurring during the Period of the Report (Cont.)

6. On July 20, 2008, a claim was filed against the Corporation and Quantum (2007) LLC, a company wholly owned by the Corporation (hereinafter – "Quantum"), against Chery Automobile Co. Ltd. (hereinafter – "Chery") and individuals related to Chery, and against Cherry Quantum Auto Co. Ltd., a joint venture owned by Chery and Quantum. The claim was filed in Michigan in the United States by a U.S. company, V Cars LLC (formerly Visionary Vehicles) (hereinafter – "the Plaintiff"), which contended that it conducted negotiations with Chery for establishment of a joint venture for production of vehicles in China and distribution thereof in the United States. The contentions against the Corporation and Quantum include claims regarding use of confidential information that was provided to the Corporation by the Plaintiff, non-fulfillment of promises and breach of fiduciary obligations vis-à-vis the Plaintiff and making of a connection with Chery to prevent the Plaintiff's participation in the production, export, distribution and sale of Chery's cars in the United States. The Plaintiff claims losses in the amount of about $26 million, allegedly caused to it, as well as a loss of future earnings from its anticipated share in the venture in the amount of about $14 billion during the 30 years the venture was expected to be in operation. The Plaintiff is requesting an injunctive order to protect the exclusive distribution franchise in the United States it was allegedly granted. In addition, the Plaintiff is requesting a reimbursement of legal expenses along with other legal remedies. The claim is in the very early stages and Quantum is required to respond to it no later than December 2, 2008. The Corporation's legal advisors believe that the Corporation and Quantum have solidly-based contentions although not guaranteed for removing them from the claim due to lack of jurisdiction and an assertion of "inconvenient forum", due to the lack of presence or business in the State of Michigan. It is noted that, to the best of the Corporation's knowledge, the statement of claim has not yet been delivered to the other defendants. The Corporation's legal advisors note that at this early stage, and taking into account the fact that they do not have a full picture of all the facts, they are unable to assess the chances of the claim's success if, in fact, it reaches the trial stage.

7. In the third quarter of the period of the report, the claim of the Movement for Proper Government against the State, ORL and Israel Corporation was cancelled with the agreement of all the parties, along with a commitment on the part of the plaintiff not to renew the claim. (See also Note 18B1 to the annual financial statements as at December 31, 2007.).

8. On July 2, 2008, the Board of Directors of a subsidiary of ICL approved a plan according to which early retirement was offered to 50 of the subsidiary's employees, that is, prior to the retirement date provided by law. 39 of the subsidiary's employees joined the plan. The other 11 employees who did not join the plan lost their rights to early retirement pursuant to the plan. In the period of the report, a provision in the amount of about $24 million was recorded in respect of the plan, which was charged to "other expenses" in the statement of income for the period.

Note 7 – Additional Information (Cont.)

F. Events Occurring during the Period of the Report (Cont.)

9. In July 2008, the Clean Air Law, 2008, was passed. The Clean Air Law, which will enter into effect on January 1, 2011, is expected to tighten the regulation and control over emission of substances into the air and will require plants emitting substances into the air to receive an emission permit for their operation. In addition, the Clean Air Law will increase the criminal and administrative sanctions imposable on a party violating the Law's provisions and causing strong or unreasonable air pollution.

   Pursuant to the interim provisions of the Clean Air Law, a plant operating in ORL's sector of operations and which properly operated an emission source pursuant to the provisions of a Personal Order granted to it, before the Clean Air Law came into effect, may continue to operate without a permit under the Clean Air Law until September 30, 2016 or until a decision is made on its application for an emission permit, whichever earlier, provided it applies for an emission permit no later than March 1, 2014.

   It is noted that ORL is in compliance with the provisions of a Personal Order granted to it. The secondary legislator was authorized by the Law to formulate material and central provisions related to implementation of the Clean Air Law, including provisions defining strong or unreasonable air pollution and steps and means to prevent strong or unreasonable pollution. These provisions have not yet been formulated.

   The provisions of the Clean Air Law also apply to ICL, with the necessary changes.

10. On September 3, 2008, the Board of Directors of ICL resolved to grant ICL approval to buy-back, from time to time, by itself and/or by a subsidiary, ordinary shares of ICL in an amount up to 5% of ICL's issued and paid-up capital, out of ICL's distributable earnings, as defined in the Companies Law, 1999. The buy-back may be implemented during a period commencing from the date of the resolution and up to June 30, 2009, and may be made on or off the stock exchange. The said resolution does not bind ICL to acquire all or any part of the shares. The purchases will be made pursuant to the legal limitations and ICL's internal compliance plan for securities as well as in accordance with instructions provided from time to time by the ad hoc committee of the Board of Directors appointed for the matter – all within the framework of the aforesaid decision.

    As at September 30, 2008, ICL had purchased 11,914,842 shares at a cost of about $169 million, constituting about 0.93% of ICL's issued and paid-up share capital (the Corporation's share is about 0.49%). As a result of the acquisition, Israel Corporation realized excess cost, which was allocated to goodwill, in the amount of about $74 million. Subsequent to the balance sheet date, ICL purchased an additional 4,105,000 shares at a cost of about $46 million. In total, ICL acquired 16,019,842 shares, constituting about 1.25% of ICL's issued and paid-up share capital (the Corporation's share is about 0.66%). As at the date of the report, ICL is continuing to execute the plan.

11. As a result of wide fluctuations in the prices of fuel and its accompanying products, ORL recorded a loss from decline in value of inventory in the amount of about $69 million as at September 30, 2008, which was offset mainly by the inventory hedges in the futures' market, in the amount of about $26 million. The loss reflects the difference between the cost of the inventory and its net realizable value on that date. The decline in value was recognized in the statement income as part of the cost of sales, refining and services.

Note 7 – Additional Information (Cont.)

F. Events Occurring during the Period of the Report (Cont.)

12. As a result of a decline in the prices of some of the ICL Group's prices, which started in the third quarter of the period of the report, in the current period ICL recorded a provision for decline in value of inventory in the amount of about $40 million in order to set the inventory's value at its realizable value, which is less than its cost. The said provision was recorded in the "cost of sales" category.

Note 8 – Contingent Liabilities and Commitments

A. A number of legal claims were filed against a subsidiary of ICL, ORL and certain investee companies of ORL, as well as against dozens of other defendants alleging bodily injury and property damage caused to the plaintiffs stemming from pollution of the Kishon Stream, which the plaintiffs contend the defendants had a part in. In the period of the report, there was no significant change in the position of the above-mentioned claims compared with that described in the annual report (see also Notes 18B2a2c and 18B2b2 in the annual financial statements as at December 31, 2007). The managements of ICL and ORL, based on opinions of their legal advisors, are not able to estimate the amount of the exposure, if any, each one in relation to the claim against it and against its investee companies and, therefore, no provision has been included in the financial statements relating to this matter.

B. In November 2007 a claim was filed in the District Court of Be'er Sheva against a subsidiary in the ICL's industrial products segment. The plaintiffs contend that hazardous materials were emitted into the air from the defendant's plant. The plaintiffs further contend that the defendant must pay the residents of the Negev "financial compensation for harm to autonomy of will and for imposing a health hazard" and to provide "a fund for medical observation purposes". The amount claimed in the class action is about $317 million. In ICL's opinion, based on the opinion of its legal advisors, the chances of the request for certification of the claim as a class action not being accepted are higher than the chances of it being accepted. No provision has been recorded in the financial statements in connection with this claim.

C. A claim was filed by Israel Shipyards Ltd. against ORL and 11 other parties, including Gadiv, Carmel Olefins and an affiliate, alleging that the defendants polluted the Kishon River, causing damage to the plaintiff's facilities at the river mouth. The lawsuit amounts to about NIS 21 million as at the filing date – (January 2004) and an undefined amount is claimed for future damages and compensation. As at the date of the financial statements, the lawsuit is in the pretrial and hearing of evidence stages in a case that is expected to commence in 2009.

On March 18, 2008 the plaintiff and Carmel Olefins signed a compromise agreement according to which the lawsuit against Carmel Olefins will be dismissed and all procedures relating exclusively to Carmel Olefins will be deleted from the experts' opinion on behalf of the plaintiff. In the compromise agreement, Carmel Olefins undertook that if a compromise is achieved with the consent of most of the defendants and third parties, which will end all proceedings in the lawsuit, it will participate in 2.8% of the amount paid to the plaintiff under the compromise agreement.

Note 8 – Contingent Liabilities and Commitments (Cont.)

C. (Cont.)

On March 26, 2008 this compromise agreement was given the validity of judgment. Carmel Olefins is negotiating with the plaintiffs to prevent it from being served a third-party notice therefore its final status in the case has yet to be clarified. In the current situation, the legal counsels of Carmel Olefins estimate that Carmel Olefins will not be charged a material amount for this suit, if any amount at all.

D. On May 12, 2008, a hearing was held in the Ministry of Environmental Protection in Haifa for Petroleum and Energy Infrastructure Company Ltd. (PEI), Eilat Ashkelon Pipeline Company Ltd. (EAPC) and ORL as a result of contentions of the Ministry of Environmental Protection whereby during an inspection made close to the fishing harbor in the PEI strip wherein Haifa Refinery and EAPC pipeline works are performed, findings were discovered that could indicate pollution and that soil suspected of being polluted was removed from the area to the Haifa Refinery. At the hearing held, ORL notified that it patrols the strip, the pipeline has cathode protection, the pipeline is tested before any flow is made therein and that the test results indicate there was no leakage from the pipeline. Notwithstanding that stated above, ORL cannot rule out the possibility that there is exposure with respect to this matter, in amounts that at this stage it is unable to estimate due to the fact that, among other things, the scope of the pollution, if it in fact exists, is unknown. In addition, ORL does not know if there is, in fact, pollution, when it was created and who is responsible.

E. For purposes of running its operations, ORL is dependent on receipt of services from the infrastructure companies, Petroleum and Energy Infrastructure Company Ltd. and Eilat Ashkelon Pipeline Company Ltd., which own infrastructures that are essential for unloading, transporting, storing and issuing crude oil and fuel products. In the first half of 2009, Petroleum and Energy Infrastructure Company Ltd. is expected to perform maintenance work on the marine line used for unloading crude oil from the Haifa Bay, subject to the approvals required from the competent authorities.

F. On April 10, 2008, the Ministry of Environmental Protection sent a letter to Carmel Olefins claiming that on April 9, 2008 black smoke was emitted from the company's polypropylene plant for cumulative periods of over six minutes an hour which, according to the Ministry, constitutes a breach of the provisions of the Personal Order. As a result of the alleged event, Carmel was summoned to a hearing on May 1, 2008 at the offices of the District Director of the Ministry of Environmental Protection.

It is noted that Carmel Olefins disagrees with the emission provisions in the event of a malfunction included in the Personal Order (which include a provision whereby smoke emission may not exceed a cumulative period of six minutes an hour), since it contends that the provisions are not practicable and Carmel Olefins is unable to comply with them. Carmel Olefins is working with the Ministry of Environmental Protection to change the emission provisions in the event of a malfunction.

It is noted that in the hearing held on August 19, 2007 following a similar event of smoke emission, Carmel Olefins was informed that any further deviation from the provisions of the Personal Order will result in an investigation by the Ministry of Environmental Protection.

Note 8 – Contingent Liabilities and Commitments (Cont.)

F. (Cont.)

On May 19, 2008 Carmel Olefins received the protocol of the hearing regarding the incident, including a demand "to immediately shut down the operations at the monomer plant until fulfillment of all the requirements according to "best available technique" (hereinafter – "BAT"), including the backup required to prevent malfunctions, to the satisfaction of the Ministry and the Haifa District Municipal Association".

On May 25, 2008 Carmel Olefins shut down the installations (hereinafter – "the Temporary Shutdown"). In the framework of the Temporary Shutdown, Carmel Olefins carried out various operations to ensure that BAT in Lapid will be operated in optimum processes, including backups required to prevent malfunctions. Carmel Olefins estimates that after the Temporary Shutdown, it is in compliance with all the requirements presented by the District Manager regarding Lapid. However, Carmel Olefins emphasized to the District Manager that this will not solve the matter of the emission provisions in the event of a malfunction and requested the appointment of a professional committee to study the matter.

On July 6, 2008, a hearing was held for Carmel Olefins with the District Manager following the District Manager's allegations of failure to comply with the provisions of the Personal Order and generation of unreasonable air pollution regarding a smoke emission event from the Carmel Olefins plant on June 21, 2008. In the minutes of this hearing, the District Manager ordered Carmel Olefins, among other things, to shut down one of its polyethylene plants until tests are completed and conclusions drawn and ordered that the tests be performed by a German expert within two weeks from the date of the hearing. The District Manager further ordered that the German expert's report be submitted and that his conclusions be applied within one month of the hearing. Carmel Olefins implemented the requirements set forth in the minutes of the hearing and shut down one of its polyethylene plants, which was reopened after the test thereof on July 18, 2008.

G. On September 17, 2008, the Supreme Court rendered a decision approving the arrangement between Carmel Olefins and the State, according to which Carmel Olefins will be convicted at its own admission, in a revised indictment filed against it following two events of smoke emission in the fall of 2003. As a result of the conviction, Carmel Olefins was fined and it undertakes not to commit another violation of this type for two years. Following the ruling, Carmel Olefins adjusted the provision to the amount of the fine.

H. Subsequent to the balance sheet date, on October 23, 2008, Carmel Olefins was served with a request for certification of a class action claim pursuant to the Class Actions Law, 2006, which was filed on October 5, 2008 in the Tel-Aviv District Court (hereinafter – "the Request").

The Request was filed for non-monetary damages allegedly caused by two smoke emission events that occurred on September 15, 2003 and October 5, 2003, where in a prior class action regarding the matter filed against ORL and Carmel Olefins, the plaintiffs agreed to remove Carmel Olefins from the claim.

In the Request, the claimant seeks to represent the residents of the Haifa Bay area and those who were present in the area (hereinafter – "the Group") and were exposed to the smoke emissions on the said dates.

Note 8 – Contingent Liabilities and Commitments (Cont.)

H. (Cont.)

The claimant asserts that each of the members of the Group should be compensated in the amount of NIS 1,000 in respect of the damage allegedly caused.

The Request does not state the estimated number of the Group's members and does not state the total amount the claimant contends that the members of the Group should compensated.

It is stated in the Request that it was filed following the results of a criminal procedure maintained against Carmel Olefins, wherein Carmel Olefins was convicted, based on its own admission, in an amended indictment relating to the events, by the Supreme Court.

In ORL estimation, based on the opinion of the legal advisors of Carmel Olefins, in view of the early stage of the claim, the complexity of the process and the fact that no amount was stipulated in the Request, it is not possible to evaluate the amount of ORL's exposure.

I. The Haifa Rowing Club filed a class action in the Haifa Magistrate's Court under the Prevention of Environmental Hazards Law (Civil Claims), 1992, against a number of factories along the banks of the Kishon River. The claim petitions for an injunction to stop the flow of effluents into the Kishon, and an order to restore the river to it to its former state before discharge of the waste into the river began. Dozens of factories were included in the claim as third parties, including ORL, Gadiv and Carmel Olefins, as well as authorities, including the State of Israel. On March 29, 2007, the Court summarily dismissed the claim and permitted the authorities to exercise their discretion concerning granting permits for discharge of effluents into the Kishon, noting the practical steps taken by the authorities and the defendants to improve the condition of the Kishon and the considerable improvement in recent years in the quality and condition of the river's water.

In September 2008, the District Court struck out the appeal filed against the summary dismissal decision as part of the agreement reached by the parties, whereby the striking out and summary dismissal of the claim by the Magistrate's Court will not prevent any of the parties from instituting any legal proceeding in the future, provided there are appropriate factual grounds for doing so.

J. With respect to contingent liabilities against the Corporation and its subsidiaries – see Note 18 to the Corporation's annual financial statements as at December 31, 2007.

Note 9 – Events Occurring Subsequent to the Balance Sheet Date

A. Subsequent to the balance sheet date, in the framework of implementation of the strategic plan for 2007, ORL's Board of Directors approved construction of a hydrocracker (hereinafter – "the Facility"), which will produce middle distillates (diesel oil and kerosene), with a total investment of $670 million. The Facility is expected to be operational in 2011.

B. Subsequent to the balance sheet date, in November 2008, Standard & Poor's Maalot (hereinafter – "Maalot") announced that it downgraded ORL's debentures (Series A, B and C as well as non-marketable debentures) from AA/Stable to A/Negative.

C. Regarding a class action filed against Carmel Olefins subsequent to the balance sheet date – see Note 8H

Note 10 – Explanation with respect to the Effects of Transition to IFRS

A. General

As stated in Note 2A these are the Group's first IFRS condensed consolidated interim financial statements for part of the period covered by the first IFRS annual financial statements.

The accounting policies set out in Note 3 have been applied in preparing the condensed consolidated interim financial statements for the nine-month and three-month periods ended September 30, 2008, the comparative data for the nine-month and three-month periods ended September 30, 2007, the comparative data for the year ended December 31, 2007 and the opening IFRS balance sheet as at January 1, 2007 (hereinafter – the Transition Date).

This note has been prepared on the basis of IFRS in issue that are effective or available for early adoption at the Group's first IFRS annual reporting date, December 31, 2008, and were the basis for the Corporation's accounting policy.

The IFRS that will be effective or available for voluntary early adoption in the annual financial statements for the year ended December 31, 2008 are still subject to change and to the issue of additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period that are relevant to this interim financial information will be determined only when the first IFRS financial statements are prepared at December 31, 2008.

Note 10 – Explanation with respect to the Effects of Transition to IFRS (Cont.)

B. Details of the Relief Provisions Selected

Set forth below is detail of the relief provisions the Corporation has selected under IFRS 1 and regarding which the Corporation is not making retroactive application as at the Transition Date of IFRS:

1. Business Combinations

The Corporation did not retroactively apply IFRS 3 (which deals with business combinations) and, therefore, goodwill and excess cost created in business combinations, in acquisitions of associated companies, companies under joint control and minority acquisitions after obtaining control, taking place prior to January 1, 2007 were not treated in accordance with IFRS 3 but, rather, pursuant to generally accepted accounting principles in Israel.

2. Translation Differences from Foreign Activities

The Corporation elected to apply the relief provision provided in IFRS 1 whereby as at the Transition Date the balances of the capital reserve deriving from the cumulative translation differences relating to all the foreign activities as at the Transition Date were reclassified to the retained earnings' balance.

3. Compound Financial Instruments

In accordance with the relief provided in IFRS 1, the Corporation has chosen not to split compound financial instruments into a liability component and an equity component in accordance with IAS 32, "Financial Instruments: Presentation and Disclosure", since the liability no longer exists on the Transition Date.

4. Share-Based Payment Transactions

In accordance with Israeli GAAP, as from January 1, 2006 the Corporation recognized share-based payment transactions with respect to grants awarded after September 15, 2005 that had not yet vested as at January 1, 2006. In accordance with the relief in IFRS 1, share-based payments awarded before November 7, 2002 or were fully vested until January 1, 2007 were not retroactively accounted for, in accordance with the relief provisions of IFRS 1.

5. Property, Plant and Equipment

The Corporation elected to apply the relief provision stated in IFRS 1 whereby the Corporation has chosen to measure part of property, plant and equipment items (land, buildings, machinery and equipment) at fair value as at January 1, 2007 and to use such fair values as the "deemed cost" as at the transition date.

Note 10 – Explanation with respect to the Effects of Transition to IFRS (Cont.)

C. Accounting Policy Adopted when IFRS Allows Various Alternatives

1. Actuarial Gains and Losses

The Corporation has chosen one of the alternatives allowed under IAS 19 as its policy for accounting for actuarial gains and losses. In accordance with the alternative chosen, the actuarial gains and losses will be immediately recognized against shareholders' equity (retained earnings).

2. Jointly Controlled Entities

In accordance with Israeli GAAP, entities in which the Corporation has joint control are presented according to the proportionate consolidation method. In accordance with IFRS, the investment in such entities may be presented according to the proportionate consolidation method or under the equity basis. The Corporation has chosen to implement the alternative of presenting investee companies under joint control according to the proportionate consolidation method.

D. Impact of the Transition to IFRS

The tables and notes hereunder provide an explanation of the effects of the transition from Israeli GAAP to IFRS on the Corporation's financial position, results of operations and cash flows.

Note 10 – Explanation with respect to the Effects of Transition to IFRS (Cont.)

D. Impact of the Transition to IFRS (Cont.)

1. Balance sheet as at January 1, 2007

	January 1, 2007			
	Israeli GAAP**	Israeli GAAP	Impact of transition to IFRS	IFRS
	Audited	Audited	Audited	Audited
	NIS millions	$ millions*	$ millions	$ millions
Current assets				
Cash and cash equivalents	975	231	-	231
Marketable securities	2,760	653	-	653
Short-term investments, deposits and loans	1,421	336	-	336
Trade receivables	3,137	742	218	960
Other receivables and debit balances, including derivative instruments	1,150	272	(36)	236
Income taxes receivable	26	6	-	6
Inventories	3,425	807	-	807
Total current assets	12,894	3,047	182	3,229
Long-term investments and balances				
Investments in associated companies	429	101	1	102
Investments in other companies	14	3	-	3
Deposits, loans and other long-term debit balances, including derivative instruments	234	55	74	129
Deferred taxes, net	28	7	16	***23
Non-current inventory	118	34	-	34
Minority debts	72	17	(17)	-
Total long-term investments and balances	895	217	74	291
Property, plant and equipment	13,329	3,155	(63)	3,092
Intangible assets	1,408	333	64	397
Total non-current assets	15,632	3,705	75	3,780
Total assets	28,526	6,752	257	7,009

* The data in millions of dollars represents the financial data based on generally accepted accounting principles in Israel if the functional currency pursuant to these principles was the dollar (see Note E1, below).
** After restatement due to the initial adoption of new standards in Israel.
*** Reclassified.

Note 10 – Explanation with respect to the Effects of Transition to IFRS (Cont.)

D. Impact of the Transition to IFRS (Cont.)

1. Balance sheet as at January 1, 2007 (Cont.)

	January 1, 2007			
	Israeli GAAP**	Israeli GAAP	Impact of transition to IFRS	IFRS
	Audited	Audited	Audited	Audited
	NIS millions	$ millions*	$ millions	$ millions
Current liabilities				
Short-term credit from banks and others	2,061	488	218	706
Trade payables	2,179	516	-	516
Provisions	171	41	-	41
Income tax payable	307	73	-	73
Other payables and credit balances, including derivative instruments	1,650	389	(5)	384
Total current liabilities	6,368	1,507	213	1,720
Long-term liabilities				
Liabilities to banks and others	6,009	1,422	1	1,423
Provisions	106	25	-	25
Debentures	3,915	927	-	927
Deferred taxes	1,704	403	(24)	***379
Debentures convertible into shares of the Corporation	1	-	-	-
Employee benefits	1,206	285	134	419
Minority interest	3,583	850	(850)	-
Total non-current liabilities	16,524	3,912	(739)	3,173
Total liabilities	22,892	5,419	(526)	4,893
Equity				
Share capital and premium	1,929	273	-	273
Capital reserves	(306)	-	5	5
Dividend proposed after the balance sheet date	248	59	(59)	-
Retained earnings	3,763	1,001	21	1,022
Total capital allocated to the Corporation's equity holders	5,634	1,333	(33)	1,300
Minority interest	-	-	816	816
Total equity	5,634	1,333	783	2,116
Total liabilities and equity	28,526	6,752	257	7,009

* The data in millions of dollars represents the financial data based on generally accepted accounting principles in Israel if the functional currency pursuant to these principles was the dollar (see Note E1, below).

** After restatement due to the initial adoption of new standards in Israel.

*** Reclassified.

Note 10 – Explanation with respect to the Effects of Transition to IFRS (Cont.)

D. Impact of the Transition to IFRS (Cont.)

2. Balance sheet as at September 30, 2007

	September 30, 2007			
	Israeli GAAP	Israeli GAAP	Impact of transition to IFRS	IFRS
	Unaudited	Unaudited	Unaudited	Unaudited
	NIS millions	$ millions*	$ millions	$ millions
Current assets				
Cash and cash equivalents	1,352	333	-	333
Marketable securities	**1,549	386	-	386
Short-term deposits, loans and investments	**1,364	340	-	340
Trade receivables	5,849	1,458	173	1,631
Other receivables and debit balances, including derivative instruments	1,261	318	43	361
Income taxes receivable	113	28	(6)	22
Inventories	6,934	1,728	(26)	1702
Total current assets	18,422	4,591	184	4,775
Long-term investments and balances				
Investments in associated companies	1,314	340	20	360
Investments in other companies	86	19	-	19
Deposits, loans and other long-term debit balances, including derivative instruments	697	176	56	232
Deferred taxes, net	44	11	12	23
Non-current inventory	128	32	-	32
Total long-term investments and balances	2,269	578	88	666
Property, plant and equipment	23,839	5,874	234	6,108
Intangible assets	2,500	631	301	932
Total non-current assets	28,608	7,083	623	7,706
Total assets	47,030	11,674	807	12,481

* The data in millions of dollars represents the financial data based on generally accepted accounting principles in Israel if the functional currency pursuant to these principles was the dollar (see Note E1, below).

** Reclassified.

Note 10 – Explanation with respect to the Effects of Transition to IFRS (Cont.)

D. Impact of the Transition to IFRS (Cont.)

2. Balance sheet as at September 30, 2007 (Cont.)

	September 30, 2007			
	Israeli GAAP	Israeli GAAP	Impact of transition to IFRS	IFRS
	Unaudited	Unaudited	Unaudited	Unaudited
	NIS millions	$ millions*	$ millions	$ millions
Current liabilities				
Short-term loans from banks and others	5,878	1,465	172	1,637
Trade payables	4,208	1,049	(20)	1,029
Provisions	241	60	-	60
Other payables and credit balances, including derivative instruments	2,434	607	171	778
Income tax payable	205	51	-	51
Total current liabilities	12,966	3,232	323	3,555
Long-term liabilities				
Liabilities to banks and others	10,880	2,711	(4)	2,707
Debentures	7,168	1,786	(233)	1,553
Provisions	181	45	-	45
Deferred taxes, net	3,038	733	61	794
Employee benefits	1,498	373	154	527
Minority interest	5,525	1,378	(1,378)	-
Total non-current liabilities	28,290	7,026	(1,400)	5,626
Total liabilities	41,256	10,258	(1,077)	9,181
Equity				
Share capital and premium	1,933	273	-	273
Capital reserves	(460)	21	10	31
Retained earnings	4,301	1,122	8	1,130
Total capital allocated to the Corporation's equity holders	5,774	1,416	18	1,434
Minority interest	-	-	1,866	1,866
Total equity	5,774	1,416	1,884	3,300
Total liabilities and equity	47,030	11,674	807	12,481

* The data in millions of dollars represents the financial data based on generally accepted accounting principles in Israel if the functional currency pursuant to these principles was the dollar (see Note E1, below).

** Reclassified.

Note 10 – Explanation with respect to the Effects of Transition to IFRS (Cont.)

D. Impact of the Transition to IFRS (Cont.)

3. Balance sheet as at December 31, 2007

	December 31, 2007			
	Israeli GAAP	Israeli GAAP	Impact of transition to IFRS	IFRS
	Audited	Audited	Audited	Audited
	NIS millions	$ millions*	$ millions	$ millions
Current assets				
Cash and cash equivalents	1,996	519	-	519
Marketable securities	1,717	446	-	446
Short-term deposits and loans	319	83	-	83
Trade receivables	6,769	1,760	-	1,760
Other receivables and debit balances, including derivative instruments	1,730	450	(68)	382
Income taxes receivable	123	32	-	32
Inventories	8,093	2,081	(17)	2,064
Total current assets	20,747	5,371	(85)	5,286
Long-term investments and balances				
Investments in associated companies	2,368	639	5	**644
Investments in other companies	145	36	-	36
Deposits, loans and other long-term debit balances, including derivative instruments	693	180	93	**273
Deferred taxes	84	22	13	**35
Non-current inventory	115	30	1	31
Total long-term investments and balances	3,405	907	112	1,019
Property, plant and equipment	23,193	5,922	595	6,517
Intangible assets	2,448	635	115	**750
Total non-current assets	29,046	7,464	822	8,286
Total assets	49,793	12,835	737	13,572

* The data in millions of dollars represents the financial data based on generally accepted accounting principles in Israel if the functional currency pursuant to these principles was the dollar (see Note E1, below).

** Reclassified.

Note 10 – Explanation with respect to the Effects of Transition to IFRS (Cont.)

D. Impact of the Transition to IFRS (Cont.)

3. Balance sheet as at December 31, 2007 (Cont.)

	December 31, 2007			
	Israeli GAAP	Israeli GAAP	Impact of transition to IFRS	IFRS
	Audited	Audited	Audited	Audited
	NIS millions	$ millions*	$ millions	$ millions
Current liabilities				
Short-term credit from banks and others	5,395	1,402	-	1,402
Trade payables	5,141	1,336	-	1,336
Provisions	208	54	12	66
Other payables and credit balances, including derivative instruments	2,490	650	(65)	**585
Income tax payable	392	102	19	**121
Total current liabilities	13,626	3,544	(34)	3,510
Long-term liabilities				
Liabilities to banks and others	11,430	2,972	-	2,972
Debentures	9,067	2,357	(5)	2,352
Provisions	142	37	12	49
Deferred taxes, net	2,562	666	148	**814
Employee benefits	1,469	382	121	**503
Minority interest	5,746	1,460	(1,460)	-
Total non-current liabilities	30,416	7,874	(1,184)	6,690
Total liabilities	44,042	11,418	(1,218)	10,200
Equity				
Share capital and premium	1,939	273	-	273
Capital reserves	(641)	42	15	57
Retained earnings	4,453	1,102	45	1,147
Total capital allocated to the Corporation's equity holders	5,751	1,417	60	1,477
Minority interest	-	-	1,895	1,895
Total equity	5,751	1,417	1,955	3,372
Total liabilities and equity	49,793	12,835	737	13,572

* The data in millions of dollars represents the financial data based on generally accepted accounting principles in Israel if the functional currency pursuant to these principles was the dollar (see Note E1, below).

** Reclassified.

Note 10 – Explanation with respect to the Effects of Transition to IFRS (Cont.)

D. Impact of the Transition to IFRS (Cont.)

4. Statement of income for 2007

	Year Ended December 31, 2007			
	Israeli GAAP	Israeli GAAP	Impact of transition to IFRS	IFRS
	Audited	Audited	Audited	Audited
	NIS millions	$ millions*	$ millions	$ millions
Sales	43,916	10,913	-	10,913
Cost of sales	36,460	9,036	27	9,063
Gross profit	7,456	1,877	(27)	1,850
Research and development expenses, net	161	39	-	39
Selling, transport and marketing expenses	2,454	601	(4)	597
Administrative and general expenses	1,489	344	32	376
Other expenses	-	-	8	8
Other income	-	-	(27)	(27)
Operating income	3,352	893	(36)	857
Financing expenses	771	349	86	**435
Financing income	-	-	(94)	**(94)
Financing expenses, net	771	349	(8)	341
Other income (expenses), net	(29)	(6)	6	-
Group's share in losses of associated companies, net	-	-	(23)	(23)
Income before taxes	2,552	538	(45)	493
Income tax	573	120	-	120
Income after taxes	1,979	418	(45)	373
Group's equity in the losses of associates, net	(97)	(24)	24	-
Minority interest in the net income of subsidiaries, net	(1,201)	(293)	293	-
Net income for the year	681	101	272	373
Allocated to:				
Holders of the Corporation's equity rights				113
Minority interest				260
Net income for the year				373

* The data in millions of dollars represents the financial data based on generally accepted accounting principles in Israel if the functional currency pursuant to these principles was the dollar (see Note E1, below).

** Reclassified.

Note 10 – Explanation with respect to the Effects of Transition to IFRS (Cont.)

D. Impact of the Transition to IFRS (Cont.)

5. Statement of income for the nine months ended September 30, 2007

	Nine Months Ended September 30, 2007			
	Israeli GAAP	Israeli GAAP	Impact of transition to IFRS	IFRS
	Unaudited	Unaudited	Unaudited	Unaudited
	NIS millions	$ millions*	$ millions	$ millions
Sales	29,604	7,006	-	7,006
Cost of sales	24,392	5,765	-	5,765
Gross profit	5,212	1,241	-	1,241
Research and development expenses, net	118	28	-	28
Selling, transport and marketing expenses	1,683	395	11	406
Administrative and general expenses	1,017	221	13	234
Other expenses	-	-	5	5
Other income	-	-	(21)	(21)
Operating income	2,394	597	(8)	589
Financing expenses	723	218	83	301
Financing income	(175)	(42)	(72)	(114)
Financing expenses, net	548	176	11	187
Other income (expenses), net	41	10	(10)	-
Group's share in losses of associated companies, net	-	-	(28)	(28)
Income before taxes	1,887	431	(57)	374
Income tax	450	93	(7)	86
Income after taxes	1,437	338	(50)	288
Group's equity in the losses of associates, net	(92)	(22)	22	-
Minority interest in the net income of subsidiaries, net	(816)	(195)	195	-
Net income for the period	529	121	167	288
Allocated to:				
Holders of the Corporation's equity rights				112
Minority interest				176
Net income for the period				288

* The data in millions of dollars represents the financial data based on generally accepted accounting principles in Israel if the functional currency pursuant to these principles was the dollar (see Note E1, below).

Note 10 – Explanation with respect to the Effects of Transition to IFRS (Cont.)

D. Impact of the Transition to IFRS (Cont.)

6. Statement of income for the three months ended September 30, 2007

	Three Months Ended September 30, 2007			
	Israeli GAAP	Israeli GAAP	Impact of transition to IFRS	IFRS
	Unaudited	Unaudited	Unaudited	Unaudited
	NIS millions	$ millions*	$ millions	$ millions
Sales	14,847	3,449	-	3,449
Cost of sales	12,649	2,938	-	2,938
Gross profit	2,198	511	-	511
Research and development expenses, net	42	10	-	10
Selling, transport and marketing expenses	639	140	14	154
Administrative and general expenses	416	79	10	89
Other expenses	-	-	4	4
Other income	-	-	(12)	(12)
Operating income	1,101	282	(16)	266
Financing expenses	411	134	57	191
Financing income	(44)	(10)	(18)	(28)
Financing expenses, net	367	124	39	163
Other income (expenses), net	22	5	(5)	-
Group’s share in losses of associated companies, net	-	-	(13)	(13)
Income before taxes	756	163	(73)	90
Income tax	136	17	(9)	8
Income after taxes	620	146	(64)	82
Group’s equity in the losses of associates, net	(19)	(4)	4	-
Minority interest in the net income of subsidiaries, net	(400)	(95)	95	-
Net income for the period	201	47	35	82
Allocated to:				
Holders of the Corporation’s equity rights				4
Minority interest				78
Net income for the period				82

* The data in millions of dollars represents the financial data based on generally accepted accounting principles in Israel if the functional currency pursuant to these principles was the dollar (see Note E1, below).

Note 10 – Explanation with respect to the Effects of Transition to IFRS (Cont.)

D. Impact of the Transition to IFRS (Cont.)

7. Effect of the aforementioned adjustment on the retained earnings:

	December 31 2007	September 30 2007	January 1 2007
	Audited	Unaudited	Audited
	$ millions	$ millions	$ millions
Employee benefits	(29)	(44)	(33)
Change in estimate of the useful lives of property, plant and equipment	12	-	-
Financial instruments	14	5	7
Investments in investee companies	1	(1)	-
Deferred taxes	(6)	(9)	(9)
Dividend proposed subsequent to the balance sheet date	-	-	59
Recording of negative goodwill to retained earnings	60	60	-
Other	(7)	(3)	(3)
Total adjustments to retained earnings	45	8	21

8. Adjustments of income:

	Nine Months Ended September 30 2007	Three Months Ended September 30 2007	Year Ended December 31 2007
	Unaudited	Unaudited	Audited
	$ millions	$ millions	$ millions
Net income based on Israeli GAAP	*121	*47	*101
Associated companies	2	2	-
Employee benefits	(3)	1	(6)
Change in estimate of the useful lives of property, plant and equipment	7	3	19
Financial instruments	(17)	(45)	3
Recording of minority interest in earnings to equity holders	176	76	260
Other	2	(2)	(4)
Total adjustments	167	35	272
Net income based on IFRS	288	82	373

* The data in millions of dollars represents the financial data based on generally accepted accounting principles in Israel if the functional currency pursuant to these principles was the dollar (see Note E1, below).

Note 10 – Explanation with respect to the Effects of Transition to IFRS (Cont.)

D. Impact of the Transition to IFRS (Cont.)

9. Statement of cash flows

(1) Interest received and interest paid were classified as cash flows from operating activities in accordance with Israeli GAAP. Pursuant to IFRS, and on the basis of the accounting policies adopted by the Corporation, interest received was classified as cash flows from operating activities whereas interest paid was classified as cash flows from financing activities.

(2) The impact of fluctuations in the currency exchange rate on the cash balances was presented as cash flows from operating activities in accordance with Israeli GAAP. Pursuant to IFRS, the impact of fluctuations in the currency exchange rate on the cash balances was presented in a separate category.

(3) Accounting treatment of the securitization transaction – according to Israeli GAAP, the securitization transaction is treated as a sale of financial assets as part of current operating activities. Pursuant to IFRS, the transaction is accounted for as a financing transaction. Therefore, the cash flows in respect of the securitization transaction are classified as part of the financing activities whereas the cash flows from collection of the customer receivables are classified as current operating activities.

There are no other significant differences between the statement of cash flows presented according to IFRS and the statement of cash flows presented according to Israeli GAAP.

E. Brief description of the differences between Israeli GAAP and IFRS

1. Functional currency

Pursuant to generally accepted accounting principles in Israel, it was possible to determine a functional currency other than the shekel only in cases where most of the revenues were received and most of the assets were acquired in that currency. Under IFRS, in order to determine the functional currency the entity must consider, among others, the following factors:

a. The currency that primarily influences the sales' prices of the goods and services (generally this will be the currency in which the sales' prices of the goods and services are denominated and settled) and the currency of the country whose competitive and regulatory forces are the main factors determining the sales' prices of the goods and services.

b. The currency that primarily influences the labor, material and other costs involved with providing the goods and services (generally this will be the currency in which the sales' prices of the goods and services are denominated and settled).

c. In addition, there are other factors that can provide evidence as to the entity's functional currency, such as, the currency in which the sources of cash from the financing activities are produced and the currency in which the receipts from current operating activities are usually held.

Note 10 – Explanation with respect to the Effects of Transition to IFRS (Cont.)

E. Brief description of the differences between Israeli GAAP and IFRS (Cont.)

1. Functional currency (cont.)

Pursuant to generally accepted accounting principles in Israel, the Corporation's functional currency is the shekel, whereas in accordance with IFRS the Corporation's functional currency is the dollar.

2. Employee benefits

IAS 19 provides the accounting treatment (recognition, measurement and disclosure) of employee benefits. Set forth below are the adjustments required for the transition from the accepted practice according to Israeli GAAP to implementation of the international standards.

In accordance with Israeli GAAP, the liability for employee severance benefits is measured on the basis of the number of years of service multiplied by the employee's latest monthly salary (one month's salary for each year worked), and the severance pay deposits against such liability are measured on the basis of their redemption value as at the balance sheet date. In addition, the liabilities for vacation and sick leave are calculated on the basis of estimates of utilization and redemption, respectively.

On the date of transition to IFRS, all the net liabilities in respect of post-retirement benefits of employees and other long-term benefit plans are measured in accordance with the provisions of IAS 19, "Employee Benefits". Pursuant to IAS 19, some of the Group's severance pay plans are defined benefit plans as defined in IAS 19. Measurement of the liability for employee severance benefits under the above-mentioned plans is made based on an actuarial estimate and takes into account, among other things, the future increase in employee salaries along with the rate of employee turnover. The measurement is made on the basis of discounting the anticipated future cash flows. The discount rate of the Group companies operating in countries having a market with a high level of trading in corporate debentures is in accordance with yield on the corporate debentures. The discount rate of the Group companies operating in countries not having a market with a high level of trading in corporate debentures, as stated above, is in accordance with yield on highly-rated government debentures. In addition, the severance pay deposits are measured according to their fair value on the basis of their present value after taking into account the expected future yield on the plan's assets.

The discount rate of the Group companies operating in Israel is in accordance with the yield on debentures of the government of Israel. To the best of the Group's knowledge, the subject of the discount interest rate is being studied and it is likely that it will be decided that in Israel the suitable discount interest rate is that based on corporate bonds. In this case, the data appearing in the Note above will change, the actuarial liability will decrease and the financing expenses for the current year relating to these liabilities will increase.

Foreign subsidiaries have a liability to pay pension benefits to employees, which was calculated on the basis of an actuarial estimate, where under Israeli GAAP part of the actuarial gains and losses were not recognized in the financial statements in accordance with the "corridor" method. With respect to the subsidiaries in Israel, actuarial gains and losses are recorded in the statement of income as incurred.

Note 10 – Explanation with respect to the Effects of Transition to IFRS (Cont.)

E. Brief description of the differences between Israeli GAAP and IFRS (Cont.)

2. Employee benefits (cont.)

The Group has chosen as its accounting policy one of the alternatives provided under IAS 19 for treating actuarial gains and losses. According to the alternative chosen, the actuarial gains and losses will be recognized immediately against an entry to the shareholders' equity (retained earnings).

The provisions for the accumulated entitlement of employees to compensation in respect of sick leave and vacation were calculated on a "first-in, first-out" basis, since sick leave and vacation days are utilized first from the entitlement transferred from prior years and only afterwards from the current year entitlement.

In the Managers' Insurance policies issued prior to 2004, the insurance companies and the Company agreed to transfer each year to the retirement benefits' component the real yield accumulated on the assets deposited in the severance pay component. Therefore, in respect of these Managers' Insurance policies, the assets included in the severance pay component that are transferred to the Company for the purpose of paying the employees upon their retirement will be lower.

In the financial statements according to IFRS, the Corporation measures the plan assets according to the nominal amount, while in each reporting period an expense will be recorded in respect of transferring the real yield of the severance pay component to the retirement benefits component.

Revenues and expenses included in accordance with Israeli GAAP in the "salaries and related expenses" category, are recorded under IFRS, partly with "salaries and related expenses" and partly in the "financing expenses" category. Included as part of the "financing expenses" category are, among other things, financing income and revaluation/erosion of the plan's assets.

3. Property, plant and equipment

a. International Accounting Standard, IAS 16, regarding "Fixed Assets", provides that the useful life of an asset shall be reviewed at least at the end of every financial year, and if the expectations are different from the prior estimates, the change is to be treated as a change in an accounting estimate, in accordance with international accounting standard, IAS 8, regarding "Accounting Policy, Changes in Accounting Estimates and Errors".

In October 2007, the Securities Authority published Decision 3-17 regarding "Change in the Useful Life of Fixed Assets (hereinafter – "the Authority's Decision"). The Authority's Decision applies to financial statements prepared in accordance with IFRS. In accordance with the Authority's Decision, a change may be made in the estimated useful life of an asset based on the Company's past experience with respect to such asset, in a case where solid and reliable evidence has been accumulated by the company that supports changing the estimate.

Based on opinions received (mostly internal opinions and one opinion from an external independent appraiser), the Group changed the estimate of the remaining useful life of the fixed assets reflecting an extension of the depreciation period as part of the financial statements prepared in accordance with IFRS, commencing from January 1, 2007.

Note 10 – Explanation with respect to the Effects of Transition to IFRS (Cont.)

E. Brief description of the differences between Israeli GAAP and IFRS (Cont.)

3. Property, plant and equipment (cont.)

a. (Cont.)

Based on the experience accumulated by the Group, the cost of assets that have been fully depreciated and are still used in manufacturing are significant. Furthermore, the Group has re-examined the useful life of the fixed assets compared with the industry in which it operates, the level of maintenance of the facilities and the functioning of the facilities over the years. According to this examination the remaining period of depreciation of the fixed assets is lower than the balance of the anticipated useful life of the facilities. On the basis of this assessment, the Group decided to change the estimate of the economic useful life of the fixed assets. The change in estimate is based on the experience accumulated by the Group and not on changes that have occurred in the assets or in the business environment. The previous estimate of the useful life of the Group's fixed assets was performed in 2002. The assessment was also based on the accumulated experience of the entity.

b. Based on the relief permitted by the provisions of IFRS 1, a subsidiary elected to measure fixed-asset items (land, buildings, machinery and equipment) based on their fair values as at January 1, 2007 and to use such fair value as the deemed cost on the transition date. The deemed cost is based on the opinion of an external expert. In addition, the useful lives of part of the assets were changed.

4. Securitization transactions

Certain Group subsidiaries entered into a securitization agreement according to which the companies sell part of their customer receivables to a foreign company that was incorporated for this purpose and that is not owned or controlled by the Group (hereinafter – "the Acquiring Company"). The Acquiring Company finances purchase of the receivables by means of a loan received from a financial entity unrelated to the Group that finances the loan from proceeds it receives from commercial paper it issues on the U.S. commercial paper market.

In accordance with Israeli GAAP, the securitization transaction executed by the Group meets the conditions for definition of a sale, and therefore the customer receivables included in the securitization transaction were eliminated in the consolidated financial statements.

The securitization transaction executed by the Group does not comply with the conditions for elimination of financial assets provided in IAS 39 regarding "Financial Instruments – Recognition and Measurement" since the Group did not transfer all the risks and rewards deriving from the customer receivables. Therefore, upon the transition to IFRS, the customer receivables included in the securitization transaction were restored in the consolidated balance sheet. On the other hand the amounts received from the Acquiring Company in the framework of the securitization transaction are recorded as financial liabilities in the "short-term credit" category, and are not offset against the balance of customer receivables.

Note 10 – Explanation with respect to the Effects of Transition to IFRS (Cont.)

E. Brief description of the differences between Israeli GAAP and IFRS (Cont.)

5. Financial instruments

The Group uses financial instruments, including derivative financial instruments, in order to reduce exposure to currency and interest risks.

According to the accepted practice in Israel, the conditions for applying hedge accounting are based mainly on economic criteria. In addition, under certain circumstances, derivative financial instruments used for hedging purposes are not recognized in the balance sheet and are not measured according to fair value.

International standard IAS 39 provides that in order for a transaction in financial instruments to be considered a hedging transaction a number of conditions must be fulfilled, including conditions regarding designation of the instrument, compliance with strict documentation requirements and an anticipation of high hedge effectiveness at the beginning and during the entire hedge. Changes in the fair value of a financial instrument designated as a hedge of an asset or liability will be recognized as income or expense concurrently with recognizing the changes in the fair value of the hedged asset or liability that relate to the hedged risk. In addition, pursuant to the international standards, changes in the fair value of derivative financial instruments that do not meet the criteria for use of hedge accounting are to be recorded on the statement of income as incurred.

The transactions the Group executes in financial instruments for purposes of reducing exposure, as noted above, do not meet the hedge conditions provided in the international standards and, therefore, upon the transition to IFRS the said financial instruments are measured according to fair value and the changes in their fair value are immediately recognized as income or expense.

Furthermore, loans to employees of the Corporation and the subsidiaries, not on market terms, were presented based on fair value on the date of their grant, in the framework of the transition to implementation of IFRS and the difference will be recognized as part of the salaries expenses over the period of the loan.

6. Minority interest

Pursuant to Israeli GAAP, the minority interest is presented in the balance sheet outside of the shareholders' equity section, whereas under IFRS the minority interest is presented in the balance sheet as part of the shareholders' equity section.

In addition, in accordance with Israeli GAAP, the minority interest in the results of subsidiaries is included as part of the results of operations in the statement of income, whereas under IFRS the minority interest, as stated, is not part of the statement of earnings but, rather, it is presented as part of distribution of the income between the holders of the Corporation's equity and the minority shareholders.

Note 10 – Explanation with respect to the Effects of Transition to IFRS (Cont.)

E. Brief description of the differences between Israeli GAAP and IFRS (Cont.)

7. Rights in land leased from the Israel Lands Administration and mining rights

Based on the lease agreements with the Israel Lands Administration, lease rights in lands have been granted to subsidiaries for a period of 49 years (some with an option to extend) that are scheduled to end in different periods. The said lease agreements do not provide the company rights to acquire the full rights in the real estate and, in some cases, the subsidiaries were not granted rights to extend the lease period.

In accordance with Israeli GAAP, amounts paid in respect of lease rights in lands were presented with the Group's fixed assets and the amounts paid were amortized over the lease period.

Pursuant to international standard IAS 17, regarding "Leases", a lease of land that does not include an option to acquire the full rights in the real estate at the end of the lease period is to be classified as an operating lease and, accordingly, amounts paid in respect of leases from the Israel Lands Administration constitute prepaid lease fees. In accordance with IFRS reporting, the lease fees, as stated, are to be presented in the "prepaid expenses in respect of operating leases" category and not in the "property, plant and equipment" category.

8. Deferred taxes

Pursuant to Israeli GAAP, deferred tax assets were classified as current assets or non-current assets according to the classification of the assets for which they were created. In accordance with IFRS, deferred tax assets are classified as non-current assets even if it is anticipated that they will be realized in the short term. Therefore, upon the transition to IFRS, short-term deferred taxes as at September 30, 2007 and as at December 31, 2007, were reclassified from the "other receivables" category in the "current assets" section to the "deferred tax assets" category in the "non-current assets" section, and short-term deferred taxes as at September 30, 2007 and December 31, 2007, were reclassified from the item of other payables under current liabilities to the item of deferred tax liabilities under non-current liabilities.

9. Reserve from translation differences of foreign activities

The Corporation elected to implement the relief provision offered by IFRS 1 whereby the entire balance of the "reserve for translation differences of foreign activities" as at the transition date may be reclassified to retained earnings.

10. Classification of other income/expenses

According to the accepted practice in Israel, gains and losses from sales of fixed assets, gains and losses from actuarial changes and expenses in respect of early retirement of employees were not presented in the consolidated financial statements as part of the operating income, but are presented under "other income/expenses". Under IFRS, these items are to be included in the operating profit or gross profit, as applicable.

Note 10 – Explanation with respect to the Effects of Transition to IFRS (Cont.)

E. Brief description of the differences between Israeli GAAP and IFRS (Cont.)

11. Concession agreements

A proportionately consolidated company has concession agreements with government entities under which the company constructed desalination facilities. Furthermore, in accordance with the agreements the company operates the desalination facilities and sells the desalinized water to the State in exchange for fixed and variable payments, as provided in the concession agreements. In accordance with Israeli GAAP (as from January 1, 2006) and in accordance with IFRS, as part of concession-based agreements, a financial asset reflecting the customer's debt is recognized in the financial statements where the said financial asset bears interest. In accordance with Israeli GAAP, the interest on the financial asset is fixed based on use of the weighted average cost of capital (WACC) of the project. In addition, recognition of the financial asset started from the date the facility was placed in service. Under IFRS (IFRIC 12), the interest rate on the financial asset is set based on the borrower's risk free rate of interest plus an interest rate reflecting the risk involved with constructing and operating the facility. Also, recognition of the financial asset starts from the commencement date of construction of the facility.

12. Dividend declared subsequent to the balance sheet date

In accordance with Israeli GAAP, a dividend declared subsequent to the balance sheet date and up to the approval date the financial statements was presented in the "shareholders' equity" section as a reduction in the "retained earnings" and an increase in the category "dividend declared subsequent to the balance sheet date".

Upon the transition to reporting under IFRS, the Corporation provides disclosure only of a dividend declared subsequent to the balance sheet date.

13. Measurement of financial instruments available for sale

Unlike Israeli GAAP, in accordance with IFRS financial instruments classified as available for sale are recognized as assets at fair value with the changes in fair value during the period being included directly in shareholders' equity and not to the statement of earnings.

14. Business combinations

a. In accordance with Israeli GAAP, a liability in respect of employee benefits was recognized following a structural change in a company consolidated for the first time, against goodwill, as at the date of acquisition.

   In accordance with IFRS, the Corporation recognized a liability for a structural change as a current expense and not as part of the cost allocation of a business combination, since on the acquisition date a liability was not included in the financial statements of the company acquired in accordance with IAS 37 regarding provisions, contingent liabilities and contingent assets.

Note 10 – Explanation with respect to the Effects of Transition to IFRS (Cont.)

E. Brief description of the differences between Israeli GAAP and IFRS (Cont.)

14. Business combinations (Cont.)

b. During 2007, the Corporation acquired 36.8% of the shares of ORL and commencing from that date and up to September 30, 2007 the Corporation acquired an additional 8.3% of ORL's shares. On September 28, 2007, the Corporation received the control permit with respect to ORL. Pursuant to Israeli GAAP, until the control permit was received the investment in ORL was presented at cost. Commencing from the date the control permit was received, ORL's financial statements were consolidated with those of the Corporation. The excess cost was calculated as at September 30, 2007 and was allocated mainly to fixed assets and deferred taxes. In calculation of the excess cost, negative goodwill was created, which was deducted first from the intangible assets and afterwards from the rest of the net assets on a proportional basis. Under IFRS, in accordance with the directives regarding the accounting treatment of business combinations executed in stages, all of ORL's identified assets and liabilities were presented at their fair values on the date of receipt of control in ORL. The difference created as a result of revaluation of prior acquisitions on the acquisition date of the control is not material. The balance of the negative goodwill on the dates of the original acquisitions and the Corporation's share in ORL's income in the period up to the date control of ORL was obtained were recorded in the retained earnings.

c. The Corporation elected the relief provided in IFRS 1 relating to business combinations whereby it applies the provisions of IFRS 3 only with respect to business combinations taking place after January 1, 2007 (the transition date to IFRS). Regarding the acquisition of ORL, as stated above, pursuant to Israeli GAAP, the acquisition cost was allocated based on the fair values of the assets and liabilities on the acquisition date. The negative goodwill was deducted first from the intangible assets and afterwards from the rest of the net assets on a proportional basis. The minority interest was calculated based on the minority's share in the carrying value of ORL's assets and liabilities on that date. Pursuant to the international standards, ORL's assets and liabilities are presented in the consolidated balance sheet on the acquisition date at their full fair values. The minority interest on the acquisition date is calculated based on the minority's share in the full fair values of ORL's assets and liabilities as at that date.

In addition, pursuant to IFRS, the minority interest was classified within the equity section.

Note 10 – Explanation with respect to the Effects of Transition to IFRS (Cont.)

E. Brief description of the differences between Israeli GAAP and IFRS (Cont.)

15. Additional accounting alternatives elected by the Corporation under IFRS

a. Treatment of acquisitions of additional rights from the minority after a business combination

Pursuant to Israeli GAAP, the Corporation allocated excess cost created on an acquisition of additional rights from the minority in a subsidiary to tangible and intangible assets if their fair values exceed their carrying values. The unallocated balance was recorded to goodwill. Absent specific provisions in IFRS for treating share acquisitions from the minority interest in subsidiaries, the Corporation elected to record the entire excess cost created upon acquisitions of shares from the minority interest in subsidiaries to goodwill and not to specifically allocate it to identified assets since an initial acquisition of control is not involved and since pursuant to IFRS upon initial acquisition of control all the identified assets and identified liabilities are already revalued to their fair values on that date.

b. Treatment of sale of shares to the minority while maintaining control

Pursuant to Israeli GAAP, the Corporation recognized income from the sale equal to the difference between the proceeds received and book value of portion sold. Absent specific provisions in IFRS for treating transactions as stated, the Corporation applied a similar treatment, consistent with the treatment it applied to acquisitions of rights from the minority (increase in rate of holdings while maintaining control). In addition, this alternative more properly reflects the nature of the current activities of the related company upon acquisition of holdings in different companies and the sale thereof.