Israel Corporation Ltd.

Periodic Report

As at March 31, 2013

(UNAUDITED)

Contents

Report of the Corporation's Board of Directors

For the Three Months Ended March 31, 2013

Israel Corporation Ltd. (hereinafter – "the Corporation") is a holding 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 a public company and its shares are traded on the Tel-Aviv Stock Exchange.

The Corporation is involved in management of the Group companies, by means of directors serving on the boards of directors of the Corporation's subsidiary and related companies.

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

The activities of the Group companies are affected by the global economic situation. The uncertainties and concerns of sliding into a worldwide recession have had an impact on the results of some of the Group companies already in the period covered by this report. The uncertainties and concerns regarding the economic stability of a number of European countries and the United States, and the fear of a slowdown in the growth rate in China, create uncertainty with respect to the operating results of the Group companies as the year progresses.

In February 2012, the final recommendations of the Committee for Increasing Competition in the Economy were submitted. In May 2012, a legislative memorandum was submitted regarding the matter. The Corporation is closely following the legislation regarding the matter and is analyzing the impact of the legislation on Corporation and its investee companies.

This Directors' Report is submitted as part of the interim financial statements for the period ended March 31, 2013, 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 2012.

FINANCIAL POSITION

– The total sales for the three months ended March 31, 2013 amounted to about $2,794 million, compared with about $2,547 million for the three months ended March 31, 2012.

– The total assets, as at March 31, 2013, amounted to about $15,359 million, compared with about $14,899 million, as at March 31, 2012, and compared with about $15,267 million, as at December 31, 2012.

– The current assets net of current liabilities, as at March 31, 2013 amounted to about $1,676 million, compared with current assets net of current liabilities of about $1,463 million as at March 31, 2012, and compared with about $1,622 million, as at December 31, 2012.

– The balance of the non-current assets, as at March 31, 2013 amounted to about $10,261 million, compared with about $9,968 million as at March 31, 2012, and compared with about $10,145 million, as at December 31, 2012.

FINANCIAL POSITION (Cont.)

– The non-current liabilities, as at March 31, 2013, amounted to about $7,774 million, compared with about $7,412 million, as at March 31, 2012, and compared with about $7,614 million, as at December 31, 2012.

– The total equity as at March 31, 2013 amounted to about $4,163 million and the total equity attributable to the owners of the Corporation amounted to about $2,218 million, compared with equity of $4,019 million and total equity attributable to the owners of the Corporation of $2,287 million as at March 31, 2012, and compared with total equity of about $4,153 and total equity attributable to the owners of the Corporation of about $2,259 million as at December 31, 2012.

CHANGES IN THE INVESTMENT PORTFOLIO

Qoros Auto Limited (hereinafter – "Qoros")

In March 2013, the Corporation transferred, through a subsidiary, the amount of about $64 million to Qoros as part of the joint venture's business plan.

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

As part of discussions with ZIM's financial creditors, as a result of agreements reached with these parties, the Corporation's support was given, in principle, to transfer 100% of ZIM's shares to a party that will hold them in trust for the benefit of ZIM's financial creditors and for the Corporation's benefit, in accordance with a trust mechanism and the terms to be agreed to with the Corporation. The said agreements will be subject to the approval of the Corporation's Audit Committee, the Corporation's Board of Directors and the General Meeting of the Corporation's shareholders by a special majority (as provided by law), approvals of ZIM's additional creditors (to the extent required), and other approvals including approvals of the State's authorities, including approval of the holder of the State's special share in ZIM. The Corporation will attempt to obtain the said approvals after agreeing on the trust mechanism and the terms as mentioned above. As at the approval date of the financial statements, the Corporation had started examining this process.

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

During 2012, I.C. Power executed a financial close for receipt of bank financing, in the amount of $595 million, in connection with construction of a hydro project for production of electricity in Peru. During 2013, the Corporation increased its guarantee to the estimated amount of about $83 million.

Better Place Inc. (hereinafter – "Better Place")

1. In October 2012, the Corporation's Board of Directors approved an investment of up to about $66 million in Better Place. In November 2012 and February 2013, the Corporation invested an additional about $33 million (the Corporation's total investment commitment). For additional details – see Note 5.A.3 to the financial statements.

2. Subsequent to the date of the report, on May 26, 2013, the Corporation's Board of Directors decided, further to the decision of the Audit Committee on May 19, 2013, not to participate in the investment round Better Place proposed to the investors. As the Corporation was informed, since investors who are prepared to invest a significant amount in an additional investment round in Better Place were not found, on May 24, 2013, the Board of Directors of Better Place made a decision regarding discontinuance of the activities of Better Place and its liquidation and in this framework, on May 26, 2013, a request for liquidation was filed in the District Court in Lod covering a number of its Israeli subsidiaries.

CHANGES IN THE INVESTMENT PORTFOLIO (Cont.)

Better Place Inc. (hereinafter – "Better Place") (Cont.)

2. (Cont.)

As a result of that stated above, the Corporation wrote off the balance of its investment in Better Place, which as at the date of the report amounted to about $29 million, this being in addition to the Corporation's share in the losses of Better Place for the three months ended March 31, 2013, which amounted to about $19 million. As at the date of the report, the balance of the Corporation's investment in Better Place in its books was written off in full and the Corporation has no guarantees and/or other commitments in connection with Better Place.

Tower Semiconductor Ltd. (hereinafter – "Tower")

The Corporation converted all the convertible capital notes of Tower it held into shares of Tower. After the conversion, the Corporation holds 39.4% of Tower's shares and about 30.5% assuming conversion of all the capital notes held by the banks.

RESULTS OF OPERATIONS

The Corporation's results include the results of Better Place, which decided to discontinue its operations and to liquidate and Qoros, which is at the start of its activities.

The Corporation's results without the impact of the results of the above-mentioned companies:

The Corporation finished the period of the report (January – March 2013) with income attributable to the owners of the Corporation of about $19 million, compared with a loss of about $57 million in the corresponding period last year.

The Corporation's results including the impact of the results of the above-mentioned companies:

The Corporation finished the period of the report (January – March 2013) with a loss attributable to the owners of the Corporation of about $41 million, compared with a loss of about $82 million in the corresponding period last year.

Set forth below are the results of operations attributable to the Corporation's equity holders, of the Group companies in the period of the report:

– ICL finished the period of the report with income of about $305 million, compared with income of about $289 million in the corresponding period last year.

– Oil Refineries Ltd. (hereinafter – "ORL"), which applies IFRS 9 (2010) in its financial statements, finished the period of the report with a loss of about $3 million, compared with a loss of about $6 million.

  Without the impact of application of IFRS 9 (2010), ORL finished the period of the report with a loss of about $4 million, compared with a loss of about $6 million (after restatement) in the corresponding period last year.

– ZIM finished the period of the report, with a loss of about $112 million, compared with a loss of about $163 million in the corresponding period last year.

  ZIM's loss for the period, without the impact of the debt arrangement on the results, amounted to about $95 million, compared with a loss of about $161 million in the corresponding period last year.

RESULTS OF OPERATIONS (Cont.)

Set forth below are the results of operations attributable to the Corporation's equity holders, of the Group companies in the period of the report: (Cont.)

– I.C. Power Ltd. (hereinafter – "I.C. Power") finished the period of the report with income of about $20 million, compared with income of about $12 million in the corresponding period last year.

– Tower Semiconductor Ltd. (hereinafter – "Tower") finished the period of the report (in accordance with IFRS) with a loss of about $24 million, compared with a loss of about $13 million in the corresponding period last year.

– Better Place LLC (hereinafter – "Better Place") finished the period of the report with a loss of about $28 million, compared with a loss of about $51 million in the corresponding period last year (after offset of interest to the preferred shareholders).

– Qoros finished the period of the report with a loss of about $23 million, compared with a loss of about $19 million in the corresponding period last year.

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

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

	Three months ended March 31	
	2013	**2012**
	$ Millions	
ICL	**160**	151
ORL	**(1)**	(2)
ZIM	**(111)**	(163)
I.C. Power	**23**	16
Tower	**(7)**	(4)
Better Place	***(48)**	(16)
Qoros	**(12)**	(9)

* Includes a provision for decline in value of the investment in Better Place, in the amount of about $29 million, recorded by Israel Corporation.

Following is a brief summary of the financial results of the Corporation and the principal investees:

ISRAEL CHEMICALS LTD.

Results of operations for the period January – March 2013

ICL finished the period of the report with income of about $305 million, compared with income of about $289 million in the corresponding period last year.

The ICL Group's sales in the period of the report amounted to about $1,640 million, compared with about $1,499 million in the corresponding period last year. The increase stems from an increase in the quantities sold which caused an increase in the sales in the amount of about $203 million. On the other hand, the increase was partly offset by a decrease in the sale prices, which gave rise to a decrease in the sales in the amount of about $73 million.

ISRAEL CHEMICALS LTD. (Cont.)

Results of operations for the period January – March 2013 (Cont.)

The gross profit in the period of the report was about 40.2% of the sales, compared with about 39.9% in the corresponding period last year. The increase in the gross profit compared with the corresponding period last year stems mainly from an increase in the quantities sold. This increase was offset to a certain extent by a decrease in the sale prices of most of ICL's products along with an increase in the energy prices.

The selling and marketing expenses amounted to about $209 million, compared with about $175 million in the corresponding period last year. The increase derives primarily from an increase in the shipping expenses, in the amount of about $27 million, mainly as a result of an increase in the quantities sold in the quarter, as noted above.

The operating income amounted to about $363 million, an increase of about $20 million compared with the corresponding period last year. The increase in the operating income stems mostly from the increase in the gross profit net of the increase in the selling and marketing expenses and the administrative and general expenses, as stated above. The rate of the operating income out of the sales was about 22.1%, compared with 22.9% in the corresponding period last year.

In the period of the report, there was a decline of about $15 million in the financing expenses, compared with the corresponding period last year. The result was mainly the result of income in the period of the report due to change in the fair value of financial derivatives and revaluation of net short-term financial liabilities, in the amount of about $20 million, compared with income of about $4 million in the corresponding period last year. In the other direction, there was an increase in the net interest expenses of about $2 million, which derived primarily from the increase in the average net financial liabilities for the period.

The tax expenses for period amounted to about $55 million, compared with about $43 million in the corresponding period last year. The rate of the tax on the pre-tax income is about 15.2%, compared with about 13.0% in the corresponding period last year. The increase in the rate of the tax in the period of the report compared with the corresponding period last year was impacted mainly by non-recurring income recognized in the first quarter of 2012 in respect of dividends distributed by subsidiaries operating outside of Israel and a tax credit received by a foreign subsidiary in the first quarter of 2012 in connection with investments in new production facilities.

The business environment

ICL's activities outside of Israel are mainly in the production of downstream products or those based on ICL's activities in Israel or in related areas. About 95% of ICL's output is sold outside of Israel. About 50% of ICL's sales in the period of the report derives from manufacturing performed outside of Israel.

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

ISRAEL CHEMICALS LTD. (Cont.)

The business environment (Cont.)

In the middle of 2012, there was a sharp increase in grain prices due to the drought and dry weather conditions in the main growing regions in the United States, Russia and Kazakhstan. In the first quarter of 2013, there was a moderate decline in grain prices. Nonetheless, grain prices are still high compared with the past and compared with the production costs. The high level of prices ensures nice profits for the farmers and permits and encourages acquisition of fertilizers.[1]

Based on a report of the U.S. Department of Agriculture (USDA) published in May 2013, a ratio of grain stocks to annual consumption at a level of 20.07% at the end of the 2012/2013 agricultural year is projected, similar to the level of 20.2% at the end of the 2011/2012 agricultural year.

In the short term, demand for fertilizers is volatile and is affected by factors such as weather in the world's central agricultural growing regions, fluctuations in planting of the main crops, agricultural input costs, agricultural product prices and developments in biotechnology. Some of these factors are influenced by subsidies and credit lines granted to farmers or to producers of agricultural inputs in various countries, and by regulation of environmental quality matters. Changes in currency exchange rates, legislation and international trade policy also affect the supply, demand and level of consumption of fertilizers worldwide. Notwithstanding the volatility that may be caused in the short term as a result of these factors, the Company estimates that the policy of most countries in the world is to ensure an orderly supply of high-quality food to their residents, including by encouraging agricultural production, which should act preserve the long-term growth trend[2].

The first quarter of 2013 was characterized by moderate demand for potash and phosphates – but higher than in the corresponding quarter last year. The demand for potash was unfavorably impacted to a certain extent by a delay in signing the potash supply contracts with India and the hesitation on the part of the Indian importers to place orders due the uncertainty with respect to the level of agricultural subsidies for the current year. In addition, the particularly cold weather in the United States as well as in a number of countries in northern Europe is causing a delay in fertilizer application for the spring 2013 season.

In the first quarter of 2013, a number of potash producers signed potash supply contracts with China for the first half of the year and the shipments to this country were renewed at an accelerated pace. The new contracts were closed at a price of $400 per ton CFR, constituting a decline of $70 per ton from the price in the first half of 2012 (in the second half of 2012 a potash supply contract with China was not signed). ICL Fertilizers agreed with its Chinese customer on a contractual quantity of 660 thousand tons for the first half of 2013 on similar terms.

During February and March 2013, potash supply contracts with India were closed for the period from April 2013 up to January 2014. The price level agreed to in the contracts is $63 lower than the price level in the prior contracts for supply potash to India, which were signed in August 2011. In this framework, ICL Fertilizers agreed to supply potash to its customers in India in the overall scope of about 920 thousand tons (including an option for supply of an additional quantity of 50 thousand tons). The sale price of the potash to the Indian market in the above-mentioned contracts is about the same as the sale price to India recently announced by the other potash producers supplying potash to this market.

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[1] Source: CBOT – Chicago Board of Trade.

[2] The assessments of future trends in this paragraph are forward-looking information and there is no certainty that they will be realized, when and at what pace. They could change as a result of fluctuations in world markets as well as local markets, especially at ICL's production sites and in the target markets for ICL products, including, inter alia, changes in supply and demand levels and in prices of products, commodities, grains. There could also be impact from actions taken by governments, producers and consumers. In addition there could be an impact from the situation in the financial markets, including changes in exchange rates, credit conditions and interest rates.

ISRAEL CHEMICALS LTD. (Cont.)

The business environment (Cont.)

Brazil started the year with a nice level of demand. The import quantities in Brazil are expected to increase in the second and third quarters as the peak fertilizer season approaches, which starts in September[3].

The phosphate market was adversely affected by the lack of an import contract with the main importer – India, and by delay of the application of fertilizers for the spring season in the United States, which is suffering from cold weather and snow-covered fields. On the other hand, lively demand in Brazil and a stable level of demand in Europe has moderated the impact of the lower level of demand.

The operations of ICL-IP are largely affected by activities in the electronics, construction, automotive, oil drilling, furniture, pharmaceuticals, agriculture, textile and water treatment markets. The slowdown of the global economy that characterized most of 2012 and continued into the period of the report triggered a slowdown in the demand for electronic products, which in turn caused a decline in the demand for flame retardants, mainly bromine-based for the electronics sector. Commencing from the final quarter of 2012, there is also a slowdown in demand for flame retardants in the construction sector. In 2012, the said slowdown caused a fall in the bromine prices in China and India. In the period of the report, the prices stabilized at their present level. Pressure is being exerted by "green" organizations in the area of environmental protection to reduce the use of bromine-based flame retardants. On the other hand, additional and new uses for bromine and its related compounds are being developed, along with regulation in various countries permitting increased use of bromine and bromine compounds.

In 2012 and in the first quarter of 2013, there was an increase in sales of clear brine solutions for oil drilling, compared with the sales in 2011 – both due to discontinuance of the freeze in provision of deep-water drilling permits in the Gulf of Mexico, and as a result of an increase in the number of drillings worldwide and in underwater drillings in particular.

In 2012, the market for chemicals used in swimming pools continued to be impacted by increased activities on the part of U.S. competitors, whose activities rely mainly on imports from the East – a trend that led to a fall in the prices of most of the products. In the beginning of 2013, the U.S. Department of Commerce decided to impose an anti-dumping tax on manufacturers of chlorine-based biocides from China, at the rate of about 30%, which improved the situation of the local producers. In the chlorine-based biocides area, the trend of rising demand in the period of the report continued.

Most of the products of ICL-IP are strongly affected by the global economic situation, competition in the target markets and volatility of prices in the fertilizers market, which affect the prices of ICL-IP's principal raw materials and availability of the raw materials, as well as by fluctuations in the energy prices. These market conditions create a competitive market for ICL-IP's products. In addition, some of ICL-IP's target markets are characterized by a seasonal factor, mainly in the area of wildfire flame retardants.

Further to the trend that has recently characterized the global markets, the first quarter was also affected by an air of uncertainty with respect to the worldwide economic stability and the political instability in the Middle East. The impacts of the steps taken in Europe to reduce expenses and the slowdown in the developing markets, including India and China, continued to have an unfavorable effect.

Marine transportation expenses amount to about 8% of ICL's total operating costs in the period of the report. The marine transportation costs in the first quarter of 2013 amounted to about US$97 million.

[3] The assessments of future trends in this paragraph are forward-looking information and there is no certainty that they will be realized, when and at what pace. They could change as a result of fluctuations in world markets as well as local markets, especially in Brazil, including, inter alia, changes in supply and demand levels, extreme changes in weather, prices of products, commodities and grains. There could also be impact from actions taken by governments, producers and consumers. In addition there could be an impact from the situation in the financial markets, including changes in exchange rates, credit conditions and interest rates.

ISRAEL CHEMICALS LTD. (Cont.)

The business environment (Cont.)

In the past several years, the marine bulk transportation prices were characterized by wide fluctuations. Starting from the fourth quarter of 2010, there has been a trend of falling marine bulk transportation prices, which continued in 2011 and 2012. The average index (the BDI (Baltic Dry Index) marine shipping index) for the first quarter of 2013 was 796 points, constituting a decline of about 8% compared with the corresponding quarter last year.

Energy costs account for approximately 8% of ICL's total operating costs in the period of the report. Since 2009, there has been a steady rise in energy prices. Petroleum-based energy prices in this quarter were higher than in the corresponding quarter of the previous year. In addition, on January 26, 2012, the Yam Tethys partnership announced that it is forced to reduce the quantities of gas it supplies because of the dilution of the gas in the well. The rate of the decline in the supply of gas from Yam Tethys, compared with the potential use in 2012 and in the first quarter of 2013 amounted to about 53% and about 63%, respectively. On April 1, 2013, supply of gas from the Tamar Field commenced. Supply of the gas from the Tamar Field fulfills all of ICL's gas needs for the facilities the conversion of which has been completed. Increase in the use of natural gas in ICL's facilities will significantly reduce emissions of pollutants in the area of the factories, improve the quality of the output, reduce the maintenance expenses and lead to a significant monetary savings due to the switch from use of expensive fuels. (For additional details, see note 22.C.2.h to the financial statements as at December 31, 2012).

Other developments in the period of account and thereafter:

In February 2013, a subsidiary in the Performance Products segment acquired the production assets and activities of a plant in Knapsack Germany used for production and marketing of P2S5 (a phosphorous derivative). The plant was acquired from the international company, Thermphos International B.V.

OIL REFINERIES LTD.

Results of operations for the period January – March 2013

ORL completed the period of the report with a loss of about $3 million, compared with a loss of about $6 million in the corresponding period last year. Without the impact of IFRS 9 (2010), ORL finished the period of the report with a loss of about $4 million, compared with a loss of about $6 million in the corresponding period last year.

The total sales in the period of the report totaled about $2,333 million, compared with about $$2,448 million in the corresponding period last year. In the fuels' segment, there was a decline in the total sales that derived from a decrease in the average price of the fuel products. The average price per ton of the main products' basket in the Mediterranean Sea area that is roughly the same as the basket produced by ORL was about $964 in the period of the report, compared with about $969 in the corresponding period last year. In the local market in the period of the report there was a decline of about 15% in the consumption of refined fuel products, compared with the corresponding period last year, mainly due to resumption by Israel Electric Company of production through use of gas. The total sales of polymers declined by about $48 million, mainly due to a fall in the quantities sold.

The operating income in the period of the report amounted to about $38 million, compared with about $42 million in the corresponding period last year. The decrease in the operating income derived mainly from an increase in the neutralized refining margin and a decrease in the fixed expenses, which was offset mainly by amounts eliminated.

The net financing expenses (without the impact of IFRS 9 (2010)), in the period of the report amounted to about $50 million, compared with net financing expenses of about $41 million in the corresponding period last year. The financing expenses increased in the period of the report mainly due to an increase in the interest on loans and debentures.

OIL REFINERIES LTD. (Cont.)

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

	January–March	
	2013	**2012**
Neutralized margin	29.4	29.4
Neutralizations in the fuels' segment	(4.1)	17.6
Accounting margin	**44.0**	**47.0**

Other developments in the period of account and thereafter

1. In the beginning of January 2013, the Hydrocracker project (facility for production of clean fuels) was placed into service, with an input of 25,000 barrels per day, with an investment of about $530 million, and it produces refined products at the required quality level and with the planned inputs. The products manufactured in the Hydrocracker are also high-quality, improved products with reference to the very strict environmental protection standards. This quality permits ORL to offer its customers a product that competes with the products of the world's leading energy company.

2. In 2011, connection of ORL's facilities to the national natural gas transport system and the ORL Group commenced using natural gas in its facilities. In November 2012, ORL signed an agreement with the "”Tamar”[4] Group for acquisition of natural gas that will serve as a source of energy and as a raw material for the ORL Group. On March 31, 2013, the Tamar Group notified that it commenced supplying the natural gas from the Tamar reserve. The natural gas serves as a combustion source in the production facilities in place of crude oil and as a raw material for production of the ORL Group's products.

   Commencing from April 2013, ORL receives a supply of natural gas that is sufficient for all its needs.

3. On May 29, 2013, a meeting of holders of ORL's debentures (Series A, B and C private debentures) and Carmel Olefins debentures (Series A) was convened, to approve the amendments proposed by ORL and Carmel Olefins to the deed of trust of the debentures, according to which, during the period from April 1, 2013 through April 1, 2015 or an earlier date of which ORL notifies the trustee in advance (hereinafter – "the Relevant Period"), ORL will provide the debenture holders of Carmel Olefins with a limited guarantee to ensure repayment of the entire principal of the debentures due for repayment by Carmel Olefins in the Relevant Period (hereinafter – "the ORL Guarantee"). Carmel Olefins has been informed that in the near future, Midrug is expected to discuss the possibility of reducing the rating of Carmel Olefins to Baa1, with a negative outlook, while Carmel Olefins contends that there is no justification for this. As at the publication date of the financial statements, Carmel Olefins is not aware of a decision by Midrug to change the rating of Carmel Olefins' debentures.

   On May 28, 2013, ORL gave notice of postponement of meetings of the debenture holders to a date that will be announced.

4. Regarding non-compliance by ORL with respect to the ratio of the equity to the total consolidated assets required for the private debentures, for the second consecutive quarter – see Note 5.D.1 to the financial statements.

[4] Nobel Energy Mediterranean Limited, Isramco 2 Limited Partnership, Avner Fuel Explorations Limited Partnership, Delek Drillings Limited Partnership and Dor Gas Explorations Limited Partnership (hereinafter – "the Tamar Group").

OIL REFINERIES LTD. (Cont.)

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

5. Subsequent to the date of the report, on May 28, 2013, ORL reported that a breakdown was found in one of the service facilities in its factory and as a result production was reduced in part of the manufacturing facilities in the refining sector. ORL is working continuously to repair the breakdown and to return the said facility to full operation as quickly as possible. As at the date of this report, ORL estimates that repair of the breakdown will be completed in mid-June.

   An analysis of the impacts of the breakdown made by ORL since the said breakdown was found indicates that, at this stage, ORL estimates the extent of the impact of the reduction of production on the net income at $11 million[5].

ZIM INTEGRATED SHIPPING SERVICES LTD.

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

	Three months ended March 31	
	2013	**2012**
	$ Millions	
Revenues from shipping and accompanying services	**918**	865
Costs of shipping and accompanying services	**(894)**	(905)
Operating depreciation	**(37)**	(39)
Gross loss	**(13)**	(79)
Other operating income, net	**2**	1
Administrative and general expenses	**(37)**	(38)
Operating loss	**(48)**	(116)
Financing expenses, net	**(60)**	(42)
Share in income of associated companies, net	**2**	1
Taxes on income	**(5)**	(5)
Loss for the period	**(111)**	(162)
Attributed to:		
Holders of non-controlling interests	**1**	1
The owners of the Corporation	**(112)**	(163)
	(111)	(162)

[5] The information regarding the length of time required to repair the breakdown and the impact on ORL's net income constitute "forward-looking" information. Timely repair of the breakdown depends on, among other things, the rate of production of the replacements by foreign manufacturers and the speed of the repair work, and is based on professional estimates of ORL's experts and outside experts regarding the repair activities required and the rate of their execution. At the same time, the extent of the impact on the income depends on ORL's estimates with respect to the margins and the length of time to repair the breakdown. Accordingly, there is no certainty that ORL's estimates regarding the duration of the required repair or with respect to the extent of the impact on the income will ultimately be as stated. To the extent the duration of the repair extends significantly beyond ORL's estimates, this may have a significant unfavorable impact on ORL's profits.

ZIM INTEGRATED SHIPPING SERVICES LTD. (Cont.)

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

	Three months ended March 31	
	2013	**2012**
	$ Millions	
Cash used in operating activities	**(28)**	(82)
Cash provided by (used in) investing activities	**28**	(2)
Cash provided by (used in) financing activities	**(71)**	6
Net decline in cash and cash equivalents	**(71)**	(78)
Cash and cash equivalents at end of the period	**116**	117
Proceeds from sale of ships and equipment, other property, plant and equipment and intangible assets	**3**	4
Total depreciation, amortization and decline in value	**(41)**	(48)

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

	As at March 31	
	2013	**2012**
	$ Millions	
Total financial liabilities (1)	**2,503**	2,555
Total monetary assets (2)	**118**	121
Total equity (deficit) attributable to the owners	**(155)**	193
Total assets	**3,001**	3,416
Payments on account of construction of ships (3)	**72**	255

(1) Not including trade payables, other payables and credit balances and financial instruments.
(2) Not including trade receivables, other receivables and debit balances and financial instruments.
(3) The balance includes a decline in value of about $92 million as at March 31, 2013, and about $20 million as at March 31, 2012.

Set forth below is the movement in ZIM's equity attributable to its owners:

	Three Months Ended March 31 2013
	$ Millions
Balance as at January 1, 2013	(43)
Loss for the period	(112)
Balance as at March 31, 2013	**(155)**

Results of operations for the period January – March 2013

The loss in the period of the report attributable to ZIM's owners, amounted to about $112 million, compared with a loss of about $163 million in the corresponding period last year.

ZIM's loss for the period, without the impact of the debt arrangement on the results, amounted to about $95 million, compared with a loss of about $161 million in the corresponding period last year.

ZIM INTEGRATED SHIPPING SERVICES LTD. (Cont.)

Results of operations for the period January – March 2013 (Cont.)

ZIM's revenues in the period of the report amounted to about $918 million, compared with about $865 million in the corresponding period last year – an increase of about $53 million. The increase in the total revenues stems, mainly, from an increase in the revenues per container, in the amount of about $68 million, income from layover fees and in the amount of about $8 million, offset by income from uncompleted voyages, in the amount of about $23 million. In the period of the report, the quantity shipped increased compared with the corresponding period last year by about 5.6%, from about 570 thousand containers to about 602 thousand containers. The average shipping price per container increased by 4% – from about $1,236 per container to about $1,282 per container.

In the period of the report, ZIM's operating expenses amounted to about $894 million, compared with about $905 million in the corresponding period last year – a decrease of about $11 million. The decrease in the operating expenses stems mainly from a decrease in the ship leasing expenses, in the amount of about $19 million, and in the fuel expenses, in the amount of about $14 million, offset by an increase in the cargo handling fees, in the amount of about $17 million.

ZIM's operating loss in the period of the report amounted to about $48 million, compared with a loss of about $116 million in the corresponding period last year. The decrease in the operating loss stems mainly from an increase in the number of containers shipped , an increase in the average shipping fees and a decrease in the fuel expenses.

ZIM's EBITDA in the period of the report amounted to a about $6 million, compared with negative EBITDA of about $69 million in the corresponding period last year.

ZIM's net financing expenses in the period of the report increased by about $18 million compared with the corresponding period last year. The increase in the financing expenses stems mainly from a change in the revaluation of derivatives in respect of the debt arrangement.

Other developments in the period of the report and thereafter:

1. On May 6, 2012, Maalot notified ZIM with respect to a reduction of its rating to ilB (from ilBB–), with a negative rating outlook. On September 20, 2012, Maalot notified that the rating (ilB), with a negative rating outlook remains unchanged due to the concern regarding ZIM's ability to meet the liquidity requirements imposed by the financing banks, which were made stricter as a result of their waiver of most of the accounting covenants up to the end of 2013.

   On May 2, 2013, Maalot notified ZIM with respect to a reduction of its rating to ilCCC, with a negative rating outlook, due to estimates that in light of ZIM's actions to arrange its capital structure there is a relatively high probability of executing a restructuring with the banks in the near future, which given ZIM's credit rating, could be considered a "distressed exchange offer", that is, a debt-default value of the issuer.

ZIM INTEGRATED SHIPPING SERVICES LTD. (Cont.)

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

2. As part of the Arrangements Law 2011-2012 it was decided to cancel the exemption provided in Section 3(7) of the Law, to the extent it addresses marine shipping. Cancellation of the exemption entered into effect on January 1, 2013, two months from the publication date of a class exemption with respect to operating arrangements covering international shipping (hereinafter – "the Class Exemption"), which was published on October 31, 2012. As a result of the regulatory changes, commencing from January 1, 2013, a new regulatory regime will apply with respect to arrangements between shipping companies in connection with marine shipping services to and from Israel, whereby operating arrangements (known as consortium arrangements) that meet the conditions of the Class Exemption will be exempt from obtaining approval from the Restrictive Business Practices Court, while the rest of the arrangements between the shipping companies will require confirmation in accordance with the regular restrictive business practices laws. Regarding existing arrangements, the transitional rules in the Class Exemption give ZIM a period of 9 month, ending on September 30, 2013, to arrange, to the extent necessary, arrangements ZIM entered into up to December 31, 2012 and that met the conditions of the statutory exemption cancelled. ZIM is making preparations in contemplation of entry of the regulatory changes into effect – both with respect to the existing arrangements as well as in connection with ZIM's future arrangements.

3. Regarding agreements with shipyards from which ships were ordered with respect to postponement of delivery and/or construction of the ships, and cancellation of some of the ships ordered – see Sections 9.22.7 and 9.22.9 of the Description of the Corporation's Business.

4. Some of the financing agreements of ZIM and/or some of its subsidiaries (which are the borrowers under the relevant loan or leasing agreement) require compliance with certain financial covenants (the lenders in accordance with the financing agreements as stated, hereinafter – "the Banks").

   In light of the worsening of the situation in the shipping market in 2011, and the renewed crisis in the shipping industry, the financial covenants provided in the 2009 Rehabilitation Plan did not conform to ZIM's results and, accordingly, ZIM was required to formulate an updated business plan for the long run and to request from the Banks during 2011 and 2012 waivers and/or changes in financial covenants as stated. During the second quarter of 2012, ZIM completed receipt of all the consents from the relevant banks to waiver and/or revise ZIM's financial covenants based on its business plan from the beginning of 2012.

   For detail of the main financial covenants ZIM is required to comply with as part of the financing agreements (after the rehabilitation plan and the consents obtained as detailed above) – see Section 9.19.7 of the Description of the Corporation's Business Report.

   For detail of the agreements reached with the Banks subsequent to the period of the report – see Section 8 below[6].

   Subsequent to the period of the report, ZIM reached agreements with the relevant ship financers in connection with postponement by one year (from March 31, 2014 to March 31, 2015) of imposition of the LTV mechanism (compliance with a loan to value ratio) with respect to new ships under construction, as detailed in Section 7.19.7.a.1(f) to the Description of the Corporation Report for 2012 (that is, postponement for one year as stated of a mechanism for supplementing collaterals or early repayment of part of the loan in order to comply with the required LTV).

[6] Two subsidiaries of ZIM (shipping companies) held jointly by ZIM and Ofer Shipping Ltd. (50/50) were included in the undertaking with the financing banks for change of the financial conditions, and the said undertaking was approved by the Audit Committees and Boards of Directors of ZIM and of the Corporation.

ZIM INTEGRATED SHIPPING SERVICES LTD. (Cont.)

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

5. In light of the continuing crisis situation in the shipping industry and its negative impacts on ZIM, as stated, and further to ZIM's estimate that it may encounter difficulties meeting its liabilities on time commencing from 2013, ZIM took and is taking a number of steps in order to allow it to cope with the effect of the continuing crisis in the shipping market, including: (1) during the period of the report, ZIM agreed with a number of the banks to which ZIM's commitment to comply with financial covenants is secured, with respect to waiver/revision of the financial covenants, and also agreed with secured banks financing the ships, with respect to postponement of the principal payments commencing from March 1, 2013 and up to December 31, 2013 to the end of 2014[3]. For additional details – see Section 9.19.7 of the Description of the Corporation's Business Report for 2012; (2) ZIM reached agreements with shipyards from which ships were ordered with respect to postponement of delivery and/or construction of the ships, and cancellation of some of the ships ordered. For additional details – see Sections 9.22.7 and 9.22.9 of the Description of the Corporation's Business for 2012; (3) ZIM has endeavored and is continuing to make efforts vis-à-vis the owners of the ships leased to ZIM (including related companies) for part of the lease fees. For additional details – see Section 9.4.2 of the Description of the Corporation's Business for 2012; (4) ZIM reached agreements regarding the repayment schedule of a loan received from a shipyard, in such a manner that $49 million that was supposed to have been paid during 2013, was postponed to 2014 and 2015; (5) ZIM continues to be committed to improved operating efficiency.

   As part of the agreements with the secured banks, as stated, on April 30, 2013 ZIM presented a 5-year business plan, together with a plan in connection with ZIM's capital structure, with the goal of achieving long-term stability. The plan includes a proposal for a debt arrangement of ZIM with its creditors. ZIM has commenced negotiations with its creditors in connection with the said debt-arrangement proposal.

6. Subsequent to the period of the report, a special collective bargaining agreement was signed between ZIM's management and the Employees Committee whereby agreements were reached regarding, among other things, retirement of employees. Regarding this matter – see Note 5.C.5 to the financial statements.

7. During the period of the report, ZIM's Audit Committee and Board of Directors approved extension of lease of car ships from interested parties. The current lease period ends on May 23, 2013, and the extension is for a period of 12 to 14 months at a price of $14,000 per day. For additional details – see Section 9.22.4 to the Description of the Corporation's Business for 2012.

8. Further to Section 9.2.2 to the Description of the Corporation's Business for 2012 and pursuant to ZIM's business plans, on May 23, 2013, a framework agreement was signed between ZIM and a third party for sale of ZIM's holdings in two companies that own container factories in China (hereinafter – "the Container Companies"). The consideration set for sale of the Container Companies is about $50.5 million. The capital gain ZIM is expected to realize from the transaction, as stated, is about $31.5 million. Detailed agreements for sale of shares of the Container Companies have not yet been signed and the agreement is subject to preconditions.

   In addition, pursuant to the agreements, an advance deposit was paid in the amount of 10% of the consideration and loans were repaid that were provided by subsidiaries of ZIM to the Container Companies, in the amount of about $11.7 million. According to the provisions of the framework agreement, the advance deposit will not be returned to the purchaser even if sale of ZIM's holdings in the Container Companies is not executed, except in cases where ZIM breaches the framework agreement.

   The parties will endeavor to sign agreements for sale of specific shares to each of the companies and will make efforts to obtain the approvals required from completion of sale of the Container Companies.

   There is no certainty that the agreements for sale of ZIM's holdings in the Container Companies will be signed, and if they are signed, there is no certainty that they will ultimately be executed.

I.C. POWER LTD.

Set forth below is main data from I.C. Power's statement of income:

	Three months ended March 31	
	2013	**2012**
	$ Millions	
Sales	**176**	132
Cost of sales	**(129)**	(109)
Gross income	**47**	23
Other income, net	**1**	–
Administrative and general expenses	**(10)**	(7)
Operating income	**38**	16
Financing expenses, net	**(10)**	(5)
Financing expenses with the parent company, net	**(3)**	(4)
Share in income of associated companies, net	**8**	9
Taxes on income	**(9)**	(3)
Income for the period	**24**	13
<u>Attributed</u>:		
Non-controlling interests	**4**	1
The owners of the Corporation	**20**	12
	24	13

Set forth below is main data from I.C. Power's statement of cash flows:

	Three months ended March 31	
	2013	**2012**
	$ Millions	
Cash flows provided by operating activities	**38**	19
Cash flows used in investing activities	**(49)**	(102)
Cash flows provided by financing activities	**(20)**	22
Increase (decrease) in cash and cash equivalents	**(31)**	(61)
Cash and cash equivalents at end of the period	**153**	160
Investments in property, plant and equipment	**59**	77
Total depreciation and amortization	**16**	13

Set forth below is significant data from I.C. Power's statements of financial position:

	As at March 31	
	2013	**2012**
	$ Millions	
Total financial liabilities (1)	**1,271**	1,147
Total monetary assets (2)	**222**	323
Total equity attributable to the owners	**634**	563
Total assets	**2,505**	2,205

(1) Not including trade payables, other payables and credit balances and financial instruments.
(2) Not including trade receivables, other receivables and debit balances and financial instruments.

I.C. POWER LTD. (Cont.)

Set forth below is the movement in I.C. Power's equity attributable to its owners:

	Three Months Ended March 31 2013
	$ Millions
Balance as at January 1, 2013	619
Income for the period	20
Other comprehensive loss for the period	(5)
Balance as at March 31, 2013	634

Results of operations for the period January – March 2013

I.C. Power finished the period of the report with net income of about $20 million, compared with income of about $12 million in the corresponding period last year.

I.C. Power's total revenues in the period of the report amounted to about $176 million, compared with about $132 million in the corresponding period last year.

I.C. Power's operating income in the period of the report amounted to about $38 million, compared with about $16 million in the corresponding period last year.

Most of the increase in the total revenues and income stems from the start of the commercial operation of the Kallpa power station in Peru (combined cycle) in August 2012.

I.C. Power's proportionate EBITDA from the investee operating companies in the period of the report amounted to about $63 million, compared with proportionate EBITDA of about $44 million in the corresponding period last year.

As at the date of the report, I.C. Power's financial liabilities (except for trade payables, other payables and credits and derivative instruments) amounted to about $1,271 million, compared with about $1,147 million in the corresponding period last year, and about $1,266 million as at December 31, 2012.

As at the date of the report, I.C. Power's net financial liabilities (financial liabilities net of financial assets) amounted to about $1,049 million, compared with about $824 million in the corresponding period last year, and about $1,001 million as at December 31, 2012.

As at the date of the report, I.C. Power's proportionate financial liabilities amounted to about $920 million, compared with about $732 million in the corresponding period last year, and about $868 million as at December 31, 2012.

Other developments in I.C. Power

1. As at the signing date of the financial statements, O.P.C. Rotem Ltd. (hereinafter – "O.P.C.") has signed eleven binding agreements for supply of electricity for periods of about 10 years, of which three were signed in 2013. Some of the agreements include options to increase the quantity of electricity purchased, or to shorten or lengthen the period of the agreements. In O.P.C.'s estimation, taking into account the options to increase the quantity of electricity purchased, the total quantity of electricity purchased under the said agreements covers most of the station's manufacturing capacity. Some of these agreements are subject to approval of a government authority.

I.C. POWER LTD. (Cont.)

Other developments in I.C. Power (Cont.)

2. In April 2013, an issuer rating of A1 with a stable rating outlook was approved by the Rating Committee of Midrug Ltd. for the operating period. The issuer rating relates to contractual liabilities given by O.P.C. Rating of O.P.C.'s for the operating period was ratified in December 2012 by the Rating Committee of Midrug Ltd. at the level of AA3 and the rating outlook was updated from negative to stable.

3. In March 2013, the rating of Inkia's international debt was raised by the Fitch rating company, from a level of BB– to BB with a stable rating outlook. The rating increase stemmed from the start of the commercial operation of Kallpa's combined-cycle power station.

4. Projects under construction:

   A. In 2010, O.P.C. commenced construction of a power station having a capacity of about 440 megawatts in Israel. As at March 31, 2013, O.P.C. had invested about $481 million in the project. As at the signing date of this report, about 99% of the project had been completed and the power station is in the "heat-up testing" stage after the gas turbine has been ignited and the station was connected to the electricity network. Commercial operation of the power station will take place after these activities are successfully completed. In the Corporation's estimation, the test run activities are expected to be completed during of July of this current year.

      The construction contractor did not comply with its contractual obligations for commercial operation on the contractual date and, accordingly, O.P.C. is entitled to liquidated damages, which are backed up by a bank guarantee. On the other hand, the construction contractor is claiming delays to an "Act of G-d" and for a payment, which has not yet been quantified, for changes. O.P.C. disagrees with the construction contractor. At the same time, Israel Electric Company has raised contentions against O.P.C. regarding delinquency with respect to the operation date of the station – contentions that O.P.C. denies.

   B. In November 2011, Aguill Del Cerro (hereinafter – "CDA"), a second-tier subsidiary of I.C. Power, signed an agreement for construction of a hydroelectric power station in Peru. As at March 31, 2013, CDA had invested about $237 million in the project.

      The planned cost of the investment in the project is about $900 million, including interest during the construction period. CDA executed a financial close in order to receive bank financing in the amount of $595 million. The first withdrawal is contingent on compliance with certain preconditions, which as at the signing date of the financial statements had not yet been fulfilled.

   C. Set forth below is detail of the investments in construction projects for the three months ended March 31, 2013 and for 2012 (in millions of dollars)[7]:

	Kallpa	OPC	CDA	Other	Total
1–3/2013	**–**	**37**	**32**	**–**	**69**
2012	46	175	177	1	399

[7] Except for projects of associated companies, including Edegel.

TOWER SEMICONDUCTOR LTD. (hereinafter – "Tower")

Tower finished the period of the report (according to IFRS) with a loss of about $24 million, compared with a loss of about $13 million in the corresponding period last year.

In the period of the report, Tower's sales amounted to about $113 million, compared with about $168 million in the corresponding period last year – a decrease of about 33%, as a result of the built-in decrease in the contract with Microne for acquisition of the Japanese factory from 2011. The gross profit in the period of the report amounted to about $3 million, compared with about $23 million in the corresponding period last year.

The net financing expenses (according to IFRS) in the period of the report amounted to about $7 million, compared with about $13 million in the corresponding period last year. The financing expenses in the quarter include non-recurring income of about $7 million as a result of signing the agreement with the Israeli banks in the first quarter – an agreement that included, among other things, extension of the loan repayment dates.

BETTER PLACE INC. (hereinafter – "Better Place")

Better Place's net loss in the period of the report, including interest to the holders of the preferred shares, amounted to about $48 million, compared with a loss of about $67 million in the corresponding period last year.

On May 24, 2013, the Board of Directors of Better Place made a decision to discontinue the activities of Better Place and to liquidate it. For additional information – see Note 5.A.4 to the financial statements.

QOROS

As at the date of the report, Qoros had not yet commenced its commercial activities. The loss of Qoros in the period of the report amounted to about $23 million, compared with a loss of about $12 million in the corresponding period last year.

The financial statements of Qoros for the period of the report are attached to the Corporation's financial statements.

SOURCES OF FINANCING AND LIQUIDITY OF ISRAEL CORPORATION AND THE HEADQUARTERS COMPANIES

As at March 31, 2013, the total financial liabilities of the Corporation and of the wholly owned and controlled headquarters companies (hereinafter – "the Headquarters Companies") amounted to about $2,584 million. The fair value of interest rate, currency and index SWAP transactions, mainly in respect of the debentures, economically reduces the liabilities by the amount of about $182 million.

As at the date of the report, the investments of the Corporation and of the Headquarters Companies in liquid assets amounted to about $777 million. The investments are mainly in short-term deposits.

The net debt of the Corporation and of the Headquarters Companies as at the date of the report was about $1,625 million.

In the period of the report, the Corporation received long-term loans in the amount of about $230 million, and paid current maturities of loans and debentures in the amount of about $191 million.

The Corporation paid current maturities of debentures in the amount of about $93 million (net of hedging transactions in respect thereof).

On January 15, 2013 and January 1, 2013, S&P Maalot confirmed a rating of ilA+/stable for the Corporation and a rating of ilA+/stable for the Corporation's debenture series (3–9).

DISCLOSURE REGARDING EXPECTED CASH FLOWS FOR FINANCING REPAYMENT OF THE CORPORATION'S LIABILITIES

The Corporation's Board of Directors examined the criteria in connection with warning signs in a company as detailed in the Securities Regulations (Periodic and Immediate Reports) (Amendment), 2012 (hereinafter – "the Regulations"). In the financial statements of ZIM, a significant investee company of Israel Corporation, there is a direction of attention referring to ZIM's financial position and, therefore, as provided in Regulation 10(B)(14)(a)(2) of the Reporting Regulations, at least one of the warning signs under the Regulations exists for the Corporation, which requires disclosure of projected cash flows.

Set forth below is disclosure of the projected cash flows, as at March 31, 2013, of the Corporation and its wholly-owned headquarters companies, including the existing and anticipated liabilities the Corporation is required to repay during two years from the date of the report, along with detail of the financial sources from which the Corporation expects to pay the said liabilities[8]:

	April 1 through December 31 2013	January 1 through December 31 2014	January 1 through March 31 2015
	In Millions of Dollars		
Opening balance	777	420	580
Cash flows from operating activities			
Operating expenses, net	(51)	(77)	(10)
Interest in respect of debentures	(47)	(76)	(18)
Interest in respect of loans	(54)	(77)	(22)
Dividend received and repayment of loan from subsidiary	414	600	–
Net cash flows from operating activities	1,039	790	530
Cash flows from financing activities			
Receipt of long-term loans	120	300	–
Repayment of long-term loans	(73)	(162)	–
Repayment of debentures	(163)	(148)	(94)
Net cash flows for operating activities	(116)	(10)	(94)
Cash and cash equivalents before investments	923	780	436
Investments in investee and other companies	(503)	(200)	(50)
Cash and cash equivalents at end of the year	**420**	**580**	**386**

A. The projected cash flows do not include dividend distributions.

B. Dividend and repayment of loan from subsidiary – the Corporation expects to receive in the period from April 1, through December 31, 2013, dividends from ICL, in the amount of about $400 million and repayment of a loan from I.C. Power, in the amount of about $14 million; and in the period from January 1, through December 31, 2014, dividends from ICL, in the amount of about $533 million, dividends from ORL in the amount of about $28 million, and from I.C. Power, in the amount of about $39 million.

[8] The Corporation's projected cash flows are based on the Corporation's estimates and projections. This forecast is "forward-looking information", the realization of which is not certain and is not under the Corporation's solel control. Therefore, there is no certainty that the estimates/forecasts will be realized, in whole or in part, which could cause a difference in the cash flows as opposed to the forecast.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT

Corporation's Consolidated Derivative Positions as at March 31, 2013

	Recognized for Accounting Purposes				Not Recognized for Accounting Purposes			
	Par Value		Fair Value		Par Value		Fair Value	
	Long	Short	Long	Short	Long	Short	Long	Short
	Millions of Dollars							
Hedging changes in variable LIBOR interest rate on dollar loans								
Up to one year								
CAP options	–	–	–	–	361	–	–	–
FLOOR options	–	–	–	–	361	–	(6)	–
Collar transactions	–	–	–	–	175	–	(2)	–
IRS transactions	–	–	–	–	1,109	–	(18)	–
More than one year								
CAP options	–	–	–	–	19	–	–	–
FLOOR options	–	–	–	–	19	–	–	–
Collar transactions	–	–	–	–	120	–	(3)	–
IRS transactions	121	–	(7)	–	305	48	(17)	4
Hedging changes in exchange rate and interest rate on loans								
Up to one year								
SWAP to dollar liability with variable interest from index-linked liability with fixed interest	–	–	–	–	–	221	–	69
SWAP to dollar liability with variable interest from shekel liability with fixed interest	–	–	–	–	–	25	–	5
SWAP to dollar liability with fixed interest from index-linked liability with fixed interest	–	–	–	–	–	3	–	1
SWAP to dollar liability with fixed interest from shekel liability with fixed interest	–	179	–	6	–	–	–	–
SWAP to shekel liability with variable interest from shekel liability with fixed interest	–	–	–	–	–	17	–	–

Long – receipt in dollars against the counter currency.
Short – payment in dollars against the counter currency.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

Corporation's Consolidated Derivative Positions as at March 31, 2013

	Recognized for Accounting Purposes				Not Recognized for Accounting Purposes			
	Par Value		Fair Value		Par Value		Fair Value	
	Long	Short	Long	Short	Long	Short	Long	Short
	Millions of Dollars							
Hedging changes in exchange rate and interest rate on loans (Cont.)								
More than one year								
SWAP to dollar liability with variable interest from index-linked liability with fixed interest	–	–	–	–	–	539	–	120
SWAP to dollar liability with variable interest from shekel liability with fixed interest	–	–	–	–	–	156	–	1
SWAP to dollar liability with fixed interest from index-linked liability with fixed interest	–	97	–	12	–	3	–	1
SWAP to dollar liability with fixed interest from shekel liability with fixed interest	–	48	–	4	–	92	–	4
SWAP to shekel liability with variable interest from shekel liability with fixed interest	–	–	–	–	–	55	–	2
Hedging changes in the CPI-linked interest rate								
Forward contract for acquisition of index differentials – more than one year	–	–	–	–	78	–	(1)	–
Other derivatives in a subsidiary								
More than one year								
Option for early repayment of debentures	–	–	–	–	401	–	92	–
Option issued for lease price of ships	–	–	–	–	–	–	–	(2)
Transactions for hedging fuel prices								
Forward contract up to one year	11	–	–	–	–	–	–	–
Purchase options more than one year	–	–	–	–	19	–	–	–
Transactions hedging energy prices and shipping fees								
Up to one year	–	–	–	–	60	–	(8)	–
More than one year	–	–	–	–	11	–	(3)	–

Long – receipt in dollars against the counter currency.
Short – payment in dollars against the counter currency.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

Corporation's Consolidated Derivative Positions as at March 31, 2013

	Recognized for Accounting Purposes				Not Recognized for Accounting Purposes			
	Par Value		Fair Value		Par Value		Fair Value	
	Long	Short	Long	Short	Long	Short	Long	Short
	Millions of Dollars							
Hedging changes in exchange rates on cash flows								
Up to one year								
Euro/Dollar								
Forward contract	3	234	–	(8)	144	–	1	–
Call options	–	–	–	–	13	–	–	–
Put options	–	–	–	–	13	–	–	–
Shekel/Dollar								
Forward contract	3	–	–	–	–	265	–	3
Call options	–	–	–	–	–	727	–	(3)
Put options	–	–	–	–	–	727	–	40
Yen/Dollar								
Forward contract	–	–	–	–	5	–	–	–
Call options	–	–	–	–	14	–	2	–
Put options	–	–	–	–	14	–	–	–
Pound/Euro								
Pound/euro up to one year	–	–	–	–	12	–	–	–
Call options pound/euro	–	–	–	–	27	–	–	–
Put options pound/euro	–	–	–	–	27	–	1	–
Forward Contracts								
Dollar / British pound – up to one year	–	–	–	–	–	12	–	–
Shekel / Japanese yen – up to one year	9	–	–	–	–	–	–	–
Chinese yuan / dollar – up to one year	–	–	–	–	–	67	–	3
Dollar / Peruvian nuevo sol	153	–	(4)	–	–	–	–	–

Long – receipt in dollars against the counter currency.
Short – payment in dollars against the counter currency.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

Sensitivity analyses with respect to changes in market factors (consolidated)

Market risks embody the potential for changes in the fair value of the financial instruments or of the cash flows deriving from them, which are comprised of the following types of risk:

1. Currency risk – as a result of changes in the exchange rates of various currencies in reference to the exchange rate of the dollar with respect to which the Corporation measures the exposure.

2. Interest rates risk – as a result of changes in the market interest rates.

3. Price risk – as a result of changes in market prices.

4. Index risk – as a result of changes in the CPI.

The sensitivity analysis was made for the risk factors that characterize the exposure components, for changes in the exchange rates, changes in the dollar interest rate, changes in the shekel interest rate, changes in the real (inflation-adjusted) interest rate, changes in the prices of goods and services.

Measurement of the changes in the fair value is made in millions of dollars. In the following tables, the changes are presented with respect to instruments that are sensitive to the parameters stated in the heading of each table and that relate to the fair value of instruments sensitive to the parameter presented. An increase means a strengthening of the dollar against the counter currency. A decrease means a weakening of the dollar against the counter currency.

The Group made sensitivity analyses in respect of changes in the market factors in the upper and lower range of 5% and 10%, except for interest rates and prices of raw materials and commodities. In light of the low interest rates, the sensitivity analyses to changes in the interest rates were made with an increase and a decrease of 0.5% and 1%, for the existing interest curves, in order to better reflect the exposure to the interest rates. The sensitivity analyses to changes in the commodity prices were made with an increase and a decrease of 20% and 50%. The market analyses were made as at the date of the financial statements.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to changes in shekel interest linked to the CPI:

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 1%	Rise of 0.5%		Fall of 0.5%	Fall of 1%
Instrument Type					
Long-term loans from banks	33	17	(470)	(18)	(36)
Debentures	58	30	(1,746)	(31)	(62)
SWAP transactions from index to dollar*	(37)	(19)	202	19	39
Total	**54**	**28**	**(2,014)**	**(30)**	**(59)**

Sensitivity to changes in shekel interest:

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 1%	Rise of 0.5%		Fall of 0.5%	Fall of 1%
Instrument Type					
Debentures	8	4	(459)	(4)	(8)
SWAP transactions from shekel to variable dollar*	(7)	(4)	10	4	8
SWAP transactions from index and shekel to fixed dollar	(3)	(1)	13	1	3
Total	**(2)**	**(1)**	**(436)**	**1**	**3**

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

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to changes in Libor interest:

	Increase (decrease) in fair value	**Increase (decrease) in fair value**	**Fair value**	**Increase (decrease) in fair value**	**Increase (decrease) in fair value**
	$ millions	**$ millions**	**$ millions**	**$ millions**	**$ millions**
	Rise of 1%	**Rise of 0.5%**		**Fall of 0.5%**	**Fall of 1%**
Instrument Type					
Derivatives in respect of debt arrangement in subsidiary	(2)	(1)	25	1	1
Long-term loans from banks	40	20	(1,254)	(21)	(42)
Debentures	26	13	(610)	(14)	(28)
SWAP transactions from index and shekel to fixed dollar*	10	5	28	(5)	(10)
IRS transactions variable to fixed*	13	6	(38)	(7)	(13)
COLLAR transactions*	4	2	(11)	(2)	(2)
Total	**91**	**45**	**(1,860)**	**(48)**	**(94)**

Sensitivity to changes in the CPI:

	Increase (decrease) in fair value	**Increase (decrease) in fair value**	**Fair value**	**Increase (decrease) in fair value**	**Increase (decrease) in fair value**
	$ millions	**$ millions**	**$ millions**	**$ millions**	**$ millions**
	Rise of 10%	**Rise of 5%**		**Fall of 5%**	**Fall of 10%**
Instrument Type					
Long-term bank loans	(47)	(24)	(470)	24	47
Debentures	(170)	(85)	(1,746)	85	169
SWAP transactions from index to dollar*	115	57	202	(57)	(115)
Acquisition of index differentials*	9	4	(1)	(4)	(9)
Total	**(93)**	**(48)**	**(2,015)**	**48**	**92**

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

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to changes in exchange rates:

Shekel/USD

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Cash and cash equivalents	(8)	(4)	89	4	9
Short-term deposits and loans	(5)	(3)	51	3	5
Trade receivables	(7)	(3)	66	3	7
Other receivables and debits	(3)	(1)	29	1	3
Credit from banks and others	20	10	(202)	(10)	(20)
Trade and other payables	36	18	(366)	(18)	(37)
Other payables and credits	16	8	(160)	(8)	(16)
Liabilities for employee rights	5	3	(56)	(3)	(6)
Long-term bank loans	43	22	(472)	(25)	(52)
Debentures	202	105	(2,183)	(114)	(238)
SWAP transactions from shekel to dollar*	(154)	(81)	223	90	189
Currency options	(53)	(30)	37	38	82
Forward transactions	(24)	(13)	3	14	30
Total	**68**	**31**	**(2,940)**	**(25)**	**(44)**

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

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to changes in exchange rates: (Cont.)

EURO/USD

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Cash and cash equivalents	(5)	(3)	53	3	5
Trade receivables	(43)	(21)	430	22	43
Other receivables and debits	(2)	(1)	21	1	2
Inventory	(2)	(1)	17	1	2
Long-term receivables and debits	(2)	(1)	23	1	3
Credit from banks and others	2	1	(23)	(1)	(2)
Trade and other payables	23	12	(235)	(12)	(24)
Other payables and credits	14	7	(137)	(7)	(14)
Long-term loans from banks	14	7	(145)	(7)	(14)
Forward transactions	(11)	(5)	(7)	5	9
Total	**(12)**	**(5)**	**(3)**	**6**	**10**

£\USD

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Cash and cash equivalents	(1)	(1)	12	1	1
Trade receivables	(10)	(5)	99	5	10
Credit from banks and others	1	1	(11)	(1)	(1)
Trade and other payables	2	1	(21)	(1)	(2)
Other payables and credits	1	1	(14)	(1)	(1)
Forward transactions	(1)	(1)	–	1	1
Total	**(8)**	**(4)**	**65**	**4**	**8**

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to changes in exchange rates: (Cont.)

Yen\USD

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Trade receivables	(1)	(1)	11	1	1
Currency options	1	1	1	(1)	(1)
Total	–	–	**12**	–	–

Rial\USD

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Cash and cash equivalents	(1)	–	5	–	1
Trade receivables	(1)	(1)	12	1	1
Trade and other payables	1	–	(9)	–	(1)
Total	**(1)**	**(1)**	**8**	**1**	**1**

Chinese Yuan\USD

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Cash and cash equivalents	(2)	(1)	16	1	2
Trade receivables	(1)	(1)	11	1	1
Other payables and credits	1	–	(5)	–	(1)
Forward transactions	(6)	(3)	3	4	8
Total	**(8)**	**(5)**	**25**	**6**	**10**

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to changes in exchange rates: (Cont.)

Canadian dollar/USD

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Trade receivables	(2)	(1)	21	1	2
Trade and other payables	2	1	(22)	(1)	(2)
Total	–	–	**(1)**	–	–

Various currencies

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Forward transactions					
Net exposure					
Bolivian peso / dollar	1	–	(8)	–	(1)
Dominican peso / dollar	(1)	–	6	–	1
Peruvian Sual / dollar	(3)	(2)	38	2	4
	(3)	**(2)**	**36**	**2**	**4**

Sensitivity to other changes

Hedging marine shipping and energy

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Hedging transactions on marine shipping and energy prices	**3**	**1**	**(12)**	**(2)**	**(3)**

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to other changes (Cont.)

Sensitivity to changes in fuel prices:

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 50%	Rise of 20%		Fall of 20%	Fall of 50%
Instrument Type					
Inventory	3	1	6	(1)	(3)
Hedging transaction on fuel prices	(5)	(2)	–	2	5
Purchase options	3	1	–	(1)	(4)
Total	**1**	**–**	**6**	**–**	**(2)**

UPDATE REGARDING DESCRIPTION OF THE CORPORATION'S BUSINESS

Set forth below are significant updates and/or changes in the Corporation's business that occurred from the publication date of the of the Corporation's Annual Report for 2012 on March 20, 2013 and up to the publication date of this report[9]:

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

1. To Section 4 of Paragraph A of the Periodic Report – Acquisition, Sale or Transfer of Assets

A. On April 17, 2013, the Corporation reported that the contacts with the Noi Fund with respect to a transaction for purchase of ICPI shares did not come to fruition and were discontinue. For additional details – see the Corporation's Immediate Report dated April 17, 2013 (Reference No. 2013-01-037345).

B. During April 2013, Potash made reference publicly to the possibility of a transaction whereby its holdings in ICL will increase. Based on its notice, Potash reached the conclusion that this is not the appropriate time to advance the opportunity as stated. For additional details, including the circumstances Potash noted that led to the said conclusion – see the Corporation's Immediate Report dated April 25, 2013 (Reference No. 2013-01-045397).

[9] Update of the Corporation's business is prepared in accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 1970, and includes significant changes or new developments in the Corporation's business that occurred from the publication date of the Corporation's Annual Report for 2012 and up to the publication date of this report. Unless it is expressly determined otherwise or where the context of the matters requires otherwise, all the terms and expressions used in this report shall have the meaning existing for them in the Corporation's Periodic Report for 2012, which was published on March 29, 2013 (Ref. No. 2013-01-084666) (hereinafter – "the Periodic Report"). Every reference to an Immediate Report includes as part of this document all the information included in the Immediate Report as stated.

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

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

A. On April 11, 2013, the Corporation provided a clarification with reference to a headline published in the media regarding payment of ZIM's debentures, and noted that, further to that stated in the Periodic Report, ZIM committed to its secured banks to present a five-year business plan up to April 30, 2013, together with a plan in connection with ZIM's capital structure in order to achieve long-term stability. Presentation of the plans to the secured banks and talks with them under certain circumstances may be interpreted as an action on the part of ZIM constituting, in and of itself, under the circumstances of the matter, grounds for calling ZIM's debentures for early repayment. Accordingly, ZIM intends to convene meetings of the holders of the debentures in order to request a waiver of these grounds, as stated. For additional details – see the Corporation's Immediate Report dated April 11, 2012 (Ref. No. 2013-01-033229).

B. On April 30, 2013, ZIM submitted to the secured banks a five-year business plan together with a plan in connection with ZIM's capital structure in order to achieve long-term stability, in accordance with its commitment, as detailed in the Periodic Report. The plans include a proposal for a debt arrangement of ZIM with its creditors. ZIM has commenced carrying on negotiations with its creditors in connection with the proposed debt arrangement as stated. There is no certainty that the proposed debt arrangement, as submitted by ZIM, will ultimately be approved by all ZIM's creditors who are covered by the said debt arrangement. For additional details – see the Corporation's Immediate Report dated May 1, 2013 (Reference No. 2013-01-050299).

C. Further to that stated in the Corporation's Immediate Report dated April 11, 2013, the meetings of the holders of ZIM's debentures (Series A-C) voting in favor of granting a waiver of the grounds for calling the debentures for immediate repayment, pursuant to Section 11.1.4(H) of the trust indentures, which provides that holders of the debentures will have grounds for calling the debentures for immediate repayment "in a case where ZIM makes an additional request for an arrangement with its creditors that is not in the ordinary course of business". In addition, it was provided that the said waiver may be cancelled upon occurrence of certain events. For additional details – see the Corporation's Immediate Reports dated April 11, 2013 and May 1, 2013 (Ref. Nos. 2013-01-033229, 2013-01-050299 and 2013-01-051463, respectively).

D. On May 2, 2013, Standard & Poor's Maalot gave notice regarding a reduction of ZIM's rating to a rating of ilCCC/Negative. For additional details – see the Corporation's Immediate Report dated May 5, 2013 (Reference No. 2013-01-053182).

E. Further to that stated in Section 9.2.2 of the Corporation's Periodic Report for 2012 and pursuant to ZIM's business plan, on May 23, 2013, a framework agreement was signed between ZIM and a third party for sale of ZIM's holdings in two companies, which own container factories in China. For additional details – see the Corporation's Immediate Report dated March 24, 2013 (Reference No. 2013-01-018562).

3. To Section 12 of Paragraph A of the Periodic Report – Additional investments not rising to the level of an activities area

A. On March 24, 2013, the Corporation instructed Tower to convert all the convertible capital notes of Tower held by the Corporation, into shares of Tower. After the conversion, the Corporation holds 39.4% of Tower's shares and about 30.5% of Tower's shares after the conversion, assuming conversion of all the capital notes held by the banks. For additional details – see the Corporation's Immediate Report dated March 24, 2013 (Reference No. 2013-01-018562).

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

3. To Section 12 of Paragraph A of the Periodic Report – Additional investments not rising to the level of an activities area (Cont.)

B. On May 26, 2013, the Corporation's Board of Directors decided, further to the decision of the Audit Committee on May 19, 2013, not to participate in an investment round proposed by Better Place to the investors. For additional details – see the Corporation's Immediate Report dated May 26, 2013 (Reference No. 2013-01-00774).

C. According to the information provided to the Corporation, on May 26, 2013, Better Place Israel (a subsidiary of Better Place) filed a request with the District Court in Lod, for voluntary liquidation. The Corporation holds about 28.6% of the shares of Better Place, on a fully-diluted basis. For details – see the Corporation's Immediate Report dated May 26, 2013 (Reference No. 2013-01-071377).

4. To Section 18 of Paragraph D of the Periodic Report – Description of the Corporation's Business, Legal Proceedings

In April 2013, at the request of V-Cars (the plaintiff), the Court instructed the appellants in the State of New York to cancel the plaintiff's appeal against the judgment of the District Court of New York which decided to summarily dismiss the plaintiff's claim against the Corporation. Accordingly, the said appeal process was dismissed and no legal claim whatsoever is pending against the Corporation regarding the matter. It is noted that one cause of action between the plaintiff and Chery is still awaiting arbitration – all as detailed in the Corporation's annual financial statements. For additional details – see the Corporation's Immediate Report dated April 4, 2013 (Reference No. 2013-01-025933).

5. To Section 13 of Paragraph D of the Periodic Report – Human Resources

On May 23, 2013, the Corporation published a notice of convening of an extraordinary General Meeting of the Corporation's shareholders, where on the Day's Agenda is extension of the service of the Chairman of the Corporation's Board of Directors, Mr. Amir Elstein, up to December 31, 2013, pursuant to the Chairman's present employment agreement. For additional details – see the Corporation's Immediate Report dated May 23, 2013 (Reference No. 2013-01-070219).

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

The Finance and Balance Sheet Committee (the committee for examination of the financial statements) (hereinafter – "the Committee"), acts in accordance with the provisions of the Companies Ordinance (Provisions and Conditions regarding Approval of the Financial Statements), 2010.

The committee has 5 members: Mr. Ofer Termachi (external director and Chairman of the Board); Mr. Gideon Langholtz (external director); Mr. Zev Nehari (director); Ms. Zahavit Cohen (director); and Mr. Dan Zusskind (director). Four of the five member of the Committee have accounting and financial expertise.

On May 26, 2013, the Committee held a meeting in order to carry on an in-principle and comprehensive discussion of the significant reporting issues and to discuss and formulate its recommendations to the Board of Directors regarding the approval process of the financial statements. All of the Committee's members were present at the meeting.

The Corporation's Board of Directors held a discussion of the Committee's recommendations and after it was satisfied that the financial statements properly reflect the Corporation's financial position and results of operations, it accepted and approved the Committee's recommendations.

EVENTS OCCURRING DURING THE PERIOD OF THE REPORT AND THEREAFTER

1. In January 2013, Maalot confirmed a rating for the Corporation's debentures (Series 3–9) of ilA+/stable.

2. Regarding claims against the Corporation in connection with Qoros – see Note 6C to the financial statements.

3. On October 31, 2012 and November 4, 2012, the Corporation published Immediate Reports, further to the reports in the media, regarding a possible merger of ICL with Potash the Corporation Saskatchewan Inc. On April 25, 2013, Potash gave notice that this is not the appropriate time to advance the opportunity as stated. For additional details – see the Corporation's Immediate Reports dated on October 31, 2012, November 4, 2012 and April 25, 2013 (Reference Nos. 2012-01-267930, 2012-01-270378 and 2013-01-045397, respectively).

4. Subsequent to the date of the report, in May 2013, extension of the service of the Chairman of the Corporation's Board of Directors pursuant to the Chairman's present employment agreement was discussed and approved unanimously by the Remuneration Committee. On May 23, 2013, the Corporation's Board of Directors discussed and unanimously approved extension of the service of the Chairman of the Corporation's Board of Directors pursuant to the present employment agreement, which ends on June 30, 2013, for an interim defined period of six months from July 1, 2013 up to December 31, 2013, subject to approval of the extraordinary General Meeting of the Corporation's that will be convened on June 30, 2013.

5. Subsequent to the date of the report, on May 26, 2013, the Corporation's Board of Directors decided, further to the decision of the Audit Committee on May 19, 2013, not to participate in an additional financing round proposed by Better Place and on May 24, 2013 the Board of Directors of Better Place decided to discontinue the activities of Better Place and to liquidate it. For additional information – see Note 5.A.4 to the financial statements.

6. For data regarding the Corporation's liabilities – see the Immediate Report regarding the position of the liabilities based on repayment dates published by the Corporation on May 29, 2013 (Ref. No. 2013-01-290280), where the information included in that Report is included herein by reference.

ADDITIONAL INFORMATION INCLUDED IN THE AUDITORS' REVIEW REPORT

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

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

1. That stated in Note 5.C.4-5 regarding estimates of a subsidiary (ZIM) in connection with its ability to produce sufficient financing sources in order to meets its operating needs and its financial liabilities, as well as to reach agreements with its creditors that will enable it to achieve financial stability.

2. That stated in Note 5.D.1-2 regarding the financial position of an associated company (ORL) and its subsidiaries and the plans of their managements in this connection, and that stated in Note 6.A regarding legal claims filed against the associated company and its investee companies as well as other contingencies. The above-mentioned managements, based on opinions of their legal advisors, are not able, at this stage, to estimate the impact, if any, of that stated above on the financial statements and, accordingly, no provisions in respect thereof have been included in the financial statements.

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

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

May 29, 2013

Israel Corporation Ltd.

Condensed Consolidated Interim Financial Statements

As at March 31, 2013

(Unaudited)

In Millions of U.S. Dollars

Israel Corporation Ltd.
Condensed Consolidated Interim Financial Statements
At March 31, 2013
Unaudited

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

Introduction

We have reviewed the accompanying financial information of Israel Corporation Ltd. and its subsidiaries including the condensed consolidated interim statement of financial position as at March 31, 2013 and the condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended. The Board of Directors and Management are responsible for preparation and presentation of the financial information for this interim period in accordance with IAS 34 "*Financial Reporting for Interim Periods*", and are also responsible for preparation of financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on the interim financial information for this interim period based on our review.

We did not review the condensed financial information for the interim period of subsidiaries, the assets of which included in the consolidation constitute about 1.4% of the total consolidated assets as at March 31, 2013, and the revenues of which included in the consolidation constitute about 7.2% of the total consolidated revenues for the three-month period ended on that date. In addition, we did not review the condensed financial information for the interim period of associated companies, the investment in which totaled about $34 million as at March 31, 2013, and the Group's share in their losses was about $5 million, for the three-month period ended on that date. The condensed financial information for the interim period of those companies was reviewed by other auditors whose review reports thereon were furnished to us and our conclusion, insofar as it relates to amounts included in respect of those companies, is based on the review reports of the other auditors.

Scope of the Review

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

Conclusion

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

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

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

1. That stated in Note 5.C.4-5 regarding estimates of a subsidiary (ZIM) in connection with its ability to produce sufficient financing sources in order to meets its operating needs and its financial liabilities, as well as to reach agreements with its creditors that will enable it to achieve financial stability.

2. That stated in Note 5.D.1-2 regarding the financial position of an associated company (ORL) and its subsidiaries and the plans of their managements in this connection, and that stated in Note 6.A regarding legal claims filed against the associated company and its investee companies as well as other contingencies. The above-mentioned managements, based on opinions of their legal advisors, are not able, at this stage, to estimate the impact, if any, of that stated above on the financial statements and, accordingly, no provisions in respect thereof have been included in the financial statements.

Somekh Chaikin
Certified Public Accountants (Isr.)

May 29, 2013

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Financial Position

	At March 31		At December 31
	2013	*2012	*2012
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Current Assets			
Cash and cash equivalents	**859**	992	1,274
Securities held for trade	**45**	37	61
Short-term investments, deposits and loans	**556**	367	416
Trade receivables	**1,654**	1,650	1,389
Other receivables and debit balances, including derivative instruments	**431**	389	403
Income taxes receivable	**91**	63	88
Inventories	**1,462**	1,433	1,491
Total current assets	**5,098**	4,931	5,122
Non-Current Assets			
Investments in associated companies accounted for using the equity method of accounting	**1,355**	1,485	1,336
Investments in other companies	**5**	7	5
Deposits, loans and other debit balances	**109**	84	102
Derivative instruments	**249**	303	266
Excess of assets over liabilities in respect of defined benefit plan	**74**	75	69
Deferred taxes, net	**144**	**130	138
Non-current inventory	**29**	30	31
Property, plant and equipment	**7,162**	**6,744	7,095
Intangible assets	**1,134**	**1,110	1,103
Total non-current assets	**10,261**	9,968	10,145
Total assets	**15,359**	14,899	15,267

* Restated – retroactive application – see Note 3B.
** Reclassified.

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

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Financial Position

	At March 31		At December 31
	2013	*2012	*2012
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Current Liabilities			
Credit from banks and others	**1,315**	1,234	1,547
Trade payables	**1,151**	1,069	1,077
Provisions	**67**	87	69
Dividend payable to the owners of the Corporation	**–**	120	–
Other payables and credit balances, including derivative instruments	**820**	904	768
Income taxes payable	**69**	54	39
Total current liabilities	**3,422**	3,468	3,500
Non-Current Liabilities			
Loans from banks and others	**4,601**	3,965	4,320
Debentures	**2,005**	2,323	2,087
Derivative instruments	**30**	67	44
Provisions	**75**	78	83
Deferred taxes, net	**315**	**288	312
Employee benefits	**748**	691	768
Total non-current liabilities	**7,774**	7,412	7,614
Total liabilities	**11,196**	10,880	11,114
Equity			
Share capital and premium	**285**	285	285
Capital reserves	**127**	118	148
Capital reserve in respect of transactions with controlling shareholder	**175**	147	175
Retained earnings	**1,631**	**1,737	1,651
Total equity attributable to the owners of the Corporation	**2,218**	2,287	2,259
Holders of non-controlling interests	**1,945**	1,732	1,894
Total equity	**4,163**	4,019	4,153
Total liabilities and equity	**15,359**	14,899	15,267

* Restated – retroactive application – see Note 3B.
** Reclassified.

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

Approval date of the financial statements: May 29, 2013

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

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Income

	For the Three Months Ended March 31		For the Year Ended December 31
	2013	*2012	*2012
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Sales	**2,794**	2,547	11,201
Cost of sales	**2,101**	2,005	8,444
Gross profit	**693**	542	2,757
Research and development expenses	**23**	20	82
Selling, transportation and marketing expenses	**206**	173	802
Administrative and general expenses	**123**	118	462
Other expenses	**30**	5	67
Other income	**(5)**	(13)	(77)
Operating income	**316**	239	1,421
Financing expenses	**158**	148	449
Financing income	**(65)**	(49)	(38)
Financing expenses, net	**93**	99	411
Share in losses of associated companies accounted for using the equity method of accounting	**(32)**	(22)	(233)
Income before taxes on income	**191**	118	777
Taxes on income	**81**	61	290
Income for the period	**110**	57	487
Attributable to:			
Owners of the Corporation	**(41)**	(82)	(146)
Holders of non-controlling interests	**151**	139	633
Income for the period	**110**	57	487
Income (loss) per share attributable to the owners of the Corporation:			
Basic loss per share (in dollars)	**(5.32)**	(10.64)	(19.30)
Diluted loss per share (in dollars)	**(5.32)**	(10.73)	(19.30)

* Restated – retroactive application – see Note 3B.

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

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Comprehensive Income

	For the Three Months Ended March 31		For the Year Ended December 31
	2013	***2012**	***2012**
	(Unaudited)		**(Audited)**
	In Millions of U.S. Dollars		
Income for the period	**110**	57	487
Components of other comprehensive income that will be recognized in future periods in the statement of income			
Foreign currency translation differences in respect of foreign activities	**(33)**	37	43
Net change in fair value of cash flow hedges transferred to the statement of income	**(6)**	1	17
Group's share in other comprehensive income (loss) of companies accounted for using the equity method of accounting	**(3)**	–	3
Effective portion of the change in fair value of cash flow hedges	**(6)**	(5)	1
Income taxes in respect of components of other comprehensive income	**(1)**	1	–
Total	**(47)**	34	64
Components of other comprehensive income that will not be recognized in future periods in the statement of income			
Actuarial gains (losses) from defined benefit plans, net	**15**	7	(44)
Income taxes in respect of components of other comprehensive income	**(4)**	(3)	9
Total	**11**	4	(35)
Other comprehensive income (loss) for the period, net of tax	**(36)**	38	29
Comprehensive income for the period	**74**	95	516
Attributable to:			
Owners of the Corporation	**(60)**	(62)	(121)
Holders of rights non-controlling interests	**134**	157	637
Comprehensive income for the period	**74**	95	516

* Restated – retroactive application – see Note 3B.

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

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

	Attributable to the owners of the Corporation						Non-controlling interests	Total equity
	Share capital and premium	Translation reserve for foreign activities	Capital reserves	Capital reserve for transactions with controlling shareholder	Retained earnings	Total		
	(Unaudited)							
	$ millions							
For the three months ended March 31, 2013								
Balance at January 1, 2013 (audited)*	**285**	**80**	**68**	**175**	**1,651**	**2,259**	**1,894**	**4,153**
Share-based payments in a subsidiary	–	–	–	–	–	–	6	6
Exercise of options granted to employees in a subsidiary	–	–	–	–	16	16	(16)	–
Share-based payments in the Corporation	–	–	3	–	–	3	–	3
Dividend to holders of non-controlling interests in a subsidiary	–	–	–	–	–	–	(73)	(73)
Income (loss) for the period	–	–	–	–	(41)	(41)	151	110
Other comprehensive loss for the period, net of tax	–	(20)	(4)	–	5	(19)	(17)	(36)
Balance at March 31, 2013	**285**	**60**	**67**	**175**	**1,631**	**2,218**	**1,945**	**4,163**

* Restated – retroactive application – see Note 3B.

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

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

	Attributable to the owners of the Corporation						Non-controlling interests	Total equity
	Share capital and premium	Translation reserve for foreign activities	Capital reserves	Capital reserve for transactions with controlling shareholder	Retained earnings	Total		
	(Unaudited)							
	$ millions							
For the three months ended March 31, 2012*								
Balance at January 1, 2012 (audited)*	**285**	**46**	**52**	**137**	**1,941**	**2,461**	**1,692**	**4,153**
Share-based payments in a subsidiary	–	–	–	–	–	–	2	2
Exercise of options granted to employees in a subsidiary	–	–	–	–	2	2	2	4
Share-based payments in the Corporation	–	–	2	–	–	2	–	2
Dividend to holders of non-controlling interests in a subsidiary	–	–	–	–	–	–	(128)	(128)
Dividend to equity holders	–	–	–	–	(120)	(120)	–	(120)
Acquisition of shares from holders of non-controlling interests in a subsidiary	–	–	–	–	(6)	(6)	(2)	(8)
Issuance of shares of a subsidiary to holders of non-controlling interests	–	–	–	–	–	–	9	9
Transactions with controlling shareholder	–	–	–	10	–	10	–	10
Income (loss) for the period	–	–	–	–	(82)	(82)	139	57
Other comprehensive income for the period, net of tax	–	20	(2)	–	2	20	18	38
Balance at March 31, 2012	**285**	**66**	**52**	**147**	**1,737**	**2,287**	**1,732**	**4,019**

* Restated – retroactive application – see Note 3B.

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

srael Corporation Ltd.
Condensed Consolidated Interim Statements of Changes in Equity

	Attributable to the owners of the Corporation						Non-controlling interests	Total equity
	Share capital and premium	Translation reserve for foreign activities	Capital reserves	Capital reserve for transactions with controlling shareholder	Retained earnings	Total		
	(Audited)							
	$ millions							
Balance at January 1, 2012*	285	46	52	137	1,941	2,461	1,692	4,153
Share-based payments in a subsidiary	–	–	–	–	–	–	8	8
Exercise of options granted to employees in a subsidiary	–	–	–	–	2	2	2	4
Share-based payments in the Corporation	–	–	5	–	–	5	–	5
Dividend to holders of non-controlling interests in a subsidiary	–	–	–	–	–	–	(491)	(491)
Dividend to equity holders	–	–	–	–	(120)	(120)	–	(120)
Acquisition of shares from holders of non-controlling interests in a subsidiary	–	–	–	–	(6)	(6)	–	(6)
Issuance of shares of a subsidiary to holders of non-controlling interests	–	–	–	–	–	–	49	49
Elimination of non-controlling interests due to loss of control	–	–	–	–	–	–	(3)	(3)
Transactions with controlling shareholder	–	–	–	38	–	38	–	38
Income (loss) for the year	–	–	–	–	(146)	(146)	633	487
Comprehensive income for the year , net of tax	–	34	11	–	(20)	25	4	29
Balance at December 31, 2012	285	80	68	175	1,651	2,259	1,894	4,153

* Restated – retroactive application – see Note 3B.

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

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Cash Flows

	For the Three Months Ended March 31		For the Year Ended December 31
	2013	*2012	*2012
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Cash flows from operating activities			
Income for the period	**110**	57	487
Adjustments:			
Depreciation and amortization	**141**	143	561
Decline in value of assets	**–**	4	138
Financing expenses (income), net	**109**	98	386
Share in losses of associated companies accounted for using the equity method of accounting	**32**	22	233
Capital gains, net	**27**	(9)	(43)
Share-based payment transactions	**9**	4	19
Income from entry of an associated company into the consolidation	**–**	–	(2)
Loss from investment in securities held for trade and securities available for sale	**–**	1	2
Taxes on income	**81**	61	290
	509	381	2,071
Change in inventories	**16**	(22)	(77)
Change in trade and other receivables	**(284)**	(36)	140
Change in trade and other payables	**41**	(1)	8
Change in uncompleted voyages, net	**(18)**	(11)	12
Change in provisions and employee benefits	**(6)**	14	26
	258	325	2,180
Income taxes paid, net	**(45)**	(55)	(268)
Dividend received	**15**	16	41
Net cash provided by operating activities	**228**	286	1,953

* Restated – retroactive application – see Note 3B.

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

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Cash Flows

	For the Three Months Ended March 31		For the Year Ended December 31
	2013	***2012**	***2012**
	(Unaudited)		**(Audited)**
	In Millions of U.S. Dollars		
Cash flows from investing activities			
Investment in long-term deposits	**–**	–	(2)
Proceeds from realization of long-term deposits	**30**	–	3
Proceeds from sale of property, plant and equipment	**3**	4	90
Short-term deposits and loans, net	**(139)**	169	111
Business combinations less cash acquired	**(45)**	1	(12)
Proceeds from sale of activities	**–**	–	7
Investments in associated and other companies	**(97)**	(46)	(112)
Acquisition of property, plant and equipment	**(249)**	**(244)	(1,118)
Acquisition of intangible assets	**(2)**	**(16)	(29)
Interest received	**7**	10	24
Receipts (payments) from derivative transactions, net used for hedging, net	**(1)**	(3)	17
Receipts (payments) from derivative transactions, net	**28**	11	(43)
Net cash used in investing activities	**(465)**	(114)	(1,064)

* Restated – retroactive application – see Note 3B.
** Reclassified.

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

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Cash Flows

	For the Three Months Ended March 31		For the Year Ended December 31
	2013	***2012**	***2012**
	(Unaudited)		**(Audited)**
	In Millions of U.S. Dollars		
Cash flows from financing activities			
Dividend paid to holders of non-controlling interests	**(3)**	(19)	(508)
Acquisition of non-controlling interests in subsidiary	**–**	(8)	(8)
Proceeds from issuance of equity to holders of non-controlling interests in subsidiaries	**–**	9	48
Receipt of long-term loans and issuance of debentures	**295**	335	1,427
Dividend paid to the owners of the Corporation	**–**	–	(120)
Repayment of long-term loans and debentures	**(394)**	(337)	(1,046)
Short-term credit from banks and others, net	**30**	(263)	(291)
Payments from derivative transactions used for hedging, net	**(1)**	–	(2)
Payments from derivative transactions not used for hedging, net	**–**	–	(2)
Proceeds from exercise of options granted to employees of a subsidiary	**–**	4	4
Interest paid	**(95)**	(98)	(323)
Net cash used in financing activities	**(168)**	(377)	(821)
Increase (decrease) in cash and cash equivalents	**(405)**	(205)	68
Cash and cash equivalents at beginning of the period	**1,271**	1,193	1,193
Effect of exchange rate fluctuations on balances of cash and cash equivalents	**(7)**	2	10
Cash and cash equivalents at the end of the period	**859**	990	1,271

* Restated – retroactive application – see Note 3B.

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

Israel Corporation Ltd.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
At March 31, 2013

Note 1 – The Reporting Entity

Israel Corporation Ltd. (hereinafter – “the Corporation”) is an Israeli-resident public corporation whose securities are listed for trading on the Tel-Aviv Stock Exchange and its registered office is located at 23 Aranha St., Tel-Aviv, Israel. The condensed consolidated interim financial statements as at March 31, 2013, include those of the Corporation, its subsidiaries and their rights in associated companies and joint transactions (hereinafter – “the Group”).

The Group operates through an array of investee companies, mainly, in the chemicals, shipping, energy and power station sectors, and it also has additional investments including in the areas of advanced technology, vehicles, and “clean” energy. The Corporation’s headquarters provides management services, through a fully 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.

Note 2 – Basis of Preparation of the Financial Statements

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

The condensed consolidated interim financial statements were prepared in accordance with IAS 34, “Financial Reporting for Interim Periods” and do not include all of the information required in complete, annual financial statements. These statements should be read together with the financial statements for the year ended December 31, 2012 (hereinafter – “the Annual Financial Statements”). In addition, these financial statements were prepared in accordance with the provisions of Section D of the Securities Regulations (Periodic and Immediate Reports) 1970.

The condensed, consolidated, interim financial statements were approved for publication by the Corporation’s Board of Directors on May 29, 2013.

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. The dollar also serves as the presentation currency in these financial statements. Currencies other than the dollar constitute foreign currency.

C. Use of estimates and judgment

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

Management’s judgment, at the time of implementing the Group’s accounting policies and the main assumptions used in the estimates involving uncertainty, are consistent with those used in preparation of the Annual Financial Statements.

Note 3 – Significant Accounting Policies

A. The Group's accounting policies in these condensed consolidated interim financial statements are the same accounting policies applied in the Annual Financial Statements.

B. First-Time Application of New Standards

International Financial Reporting Standard IFRS 11 "Joint Arrangements" (hereinafter – "the Standard") – the Standard replaced the directives of IAS 31 "Rights in Joint Transactions" (hereinafter – "IAS 31") and amended some of the directives of IAS 28 "Investments in Associated Companies" (hereinafter – "IAS 28"). The Standard defines joint arrangements as arrangements wherein two or more parties have joint control. The Standard makes a distinction between "joint operations" and "joint ventures":

Joint operations – are arrangements wherein the parties having joint control have rights in the assets relating to the arrangement and obligations to fulfill the liabilities relating to the arrangement, whether or not the arrangement is incorporated in a separate structure. The accounting treatment of joint operations is similar to the accounting treatment under IAS 31 of jointly-controlled assets and transactions, that is, recognition of the assets, liabilities and transactions pursuant to the relevant standards.

Joint ventures – are joint arrangements that incorporated in a separate entity and wherein the parties having joint control have rights in the net assets of the joint arrangement. Joint ventures are to be accounted for solely based on the equity method of accounting (the proportionate consolidation method has been eliminated).

As a result of adoption of the Standard, jointly-controlled companies that were previously included based on the proportionate consolidation method are presented based on the equity method of accounting. The Standard applies to reporting periods commencing on January 1, 2013 and is to be applied retroactively.

The impact of the above-mentioned Standard on the financial statements is not material.

Amendment to IAS 19 "Employee Benefits" (hereinafter – "the Amendment") – pursuant to the Amendment costs in respect of past services are recognized immediately without reference to whether the benefits have vested or not. Calculation of the net financing income (expenses) is made by multiplying the liability (asset) by the net defined benefit by the discount rate used for measurement of the defined benefit. Accordingly, the manner of calculating the actuarial gains or losses was also changed. In addition, the Amendment changed the definition of long-term employee benefits and short-term employee benefits such that instead of determining the classification as long-term or short-term based on the eligibility date, the classification depends on the entity's expectation with respect to the dates when the benefits will be fully utilized.

The Amendment applies to reporting periods commencing on January 1, 2013 and is to be applied retroactively (except for certain relief provided in the Amendment).

The impact of the above-mentioned Amendment on the financial statements is not material.

Note 3 – Significant Accounting Policies (Cont.)

B. First-Time Application of New Standards (Cont.)

IFRIC Interpretation 20 "Stripping Costs in the Production Stage in the Site Mining Process" (hereinafter – "the Interpretation") – the Interpretation applies to costs of removing waste created in the course of mining operations of an open mine during the mine's production stage (hereinafter – "stripping costs"). Pursuant to the Interpretation, if the benefit of the stripping costs is realized in the form of inventory produced, the entity is to account for these stripping costs in accordance with IAS 2 as inventory. If the benefit is improved access to the quarry, the entity is to recognize these costs as an addition to a non-current asset, provided the criteria appearing in the Interpretation are fulfilled.

The Interpretation is being applied to reporting periods commencing on January 1, 2013 and is to be applied retroactively.

The impact of the above-mentioned Interpretation on the financial statements is not material.

IFRS 10 "Consolidated Financial Statements" (hereinafter – "the Standard") – the Standard provides a new control model for determining whether an investee company is to be consolidated, which is to be applied to all the investee entities. "De facto" circumstances will be taken into account for purposes of assessing control, such that existence of effective control over the investee will require consolidation of its statements. When assessing the existence of control, all significant potential voting rights are to be taken account and not only potential voting rights that may be utilized immediately.

The directives of IAS 27 continue to apply only with respect to separate-company financial statements.

The Standard is to be applied retroactively (except for certain relief provided in the transitional rules).

Application of the Standard did not have a significant impact on the financial statements.

IFRS 13 "Measurement of Fair Value" (hereinafter – "the Standard") – when measuring the fair value of a liability, account is to be taken of the impact of the entity's internal credit risk.

If an asset or liability measured at fair value has a "bid price" and an "asking price", the price in the range between them that best reflects fair value under the circumstances is to be used for measurement of the fair value.

The Standard is to be applied prospectively where its disclosure requirements will not apply to the comparative data for prior periods upon the initial application.

In the Group's estimation, application of the Standard is not expected to have a significant impact on the financial statements.

See Note 7 – "Financial Instruments".

Note 3 – Significant Accounting Policies (Cont.)

C. Indices and Exchange Rates

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

	Consumer Price Index	Dollar–NIS exchange rate	Dollar–Euro exchange rate
	%	%	%
Rates of change for the three months ended:			
March 31, 2013	**–**	**(2.3)**	**3.1**
March 31, 2012	–	(2.8)	3.1
For the year ended December 31, 2012	1.4	(2.3)	(1.9)

Note 4 – Information on Activity Segments

A. General

The Group is composed of the following activity segments:

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

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

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

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

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

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

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

Note 4 – Information on Activity Segments (Cont.)

B. Information relating to Business Segments

	ICL	ORL	ZIM	I.C. Power	Other	Adjustments (1)	Total
	Unaudited						
	$ millions						
For the three months ended March 31, 2013*							
Sales to external customers	1,640	2,332	914	176	64	(2,332)	2,794
Inter-segment sales	–	–	4	–	–	–	4
	1,640	2,332	918	176	64	(2,332)	2,798
Elimination of inter-segment sales	–	–	(4)	–	–	–	(4)
Total sales	1,640	2,332	914	176	64	(2,332)	2,794
EBITDA for the period	445	81	(6)	53	(37)	(81)	455
Depreciation and amortization	83	43	41	16	1	(43)	141
Financing income	(41)	(12)	(1)	(3)	(26)	18	(64)
Financing expenses	43	62	61	13	47	(68)	158
Share in losses (income) of associated companies accounted using the equity method	1	–	(2)	(8)	41	–	32
Extraordinary or non-recurring losses	(1)	–	–	–	(1)	–	(1)
	85	93	99	18	62	(93)	264
Income (loss) before taxes	360	(12)	(105)	35	(99)	12	191
Taxes on income	55	(8)	5	9	12	8	81
Income (loss) for the year	305	(4)	(110)	26	(111)	4	110

(*)Restated – retroactive application – see Note 3B.
(1) Mainly adjustments deriving from the ORL segment.

Note 4 – Information on Activity Segments (Cont.)

B. Information relating to Business Segments (Cont.)

	ICL	ORL	ZIM	I.C. Power	Other	Adjustments [1]	Total
	Unaudited						
	$ millions						
For the three months ended March 31, 2012*							
Sales to external customers	1,499	2,448	861	132	55	(2,448)	2,547
Inter-segment sales	–	–	4	–	–	–	4
	1,499	2,448	865	132	55	(2,448)	2,551
Elimination of inter-segment sales	–	–	(4)	–	–	–	(4)
Total sales	1,499	2,448	861	132	55	(2,448)	2,547
EBITDA for the period	432	80	(69)	29	(1)	(79)	392
Depreciation and amortization	84	38	48	13	2	(38)	147
Financing income	(9)	(2)	(5)	(3)	(39)	9	(49)
Financing expenses	26	43	47	11	72	(51)	148
Share in losses (income) of associated companies	(7)	1	(1)	(9)	39	(1)	22
Extraordinary or non-recurring income	6	–	–	–	–	–	6
	100	80	89	12	74	(81)	274
Income (loss) before taxes	332	–	(158)	17	(75)	2	118
Taxes on income	43	6	5	3	10	(6)	61
Income (loss) for the year	289	(6)	(163)	14	(85)	8	57

[*] Restated – retroactive application – see Note 3B.
[1] Mainly adjustments deriving from the ORL segment.

Note 4 – Information on Activity Segments (Cont.)

B. Information relating to Business Segments (Cont.)

	ICL	ORL	ZIM	I.C. Power	Other	Adjustments [1]	Total
				Audited			
				$ millions			
2012*							
Sales to external customers	6,470	9,673	3,940	576	215	(9,673)	11,201
Inter-segment sales	1	54	20	–	–	(54)	21
	6,471	9,727	3,960	576	215	(9,727)	11,222
Elimination of inter-segment sales	(1)	(54)	(20)	–	–	54	(21)
Total sales	6,470	9,673	3,940	576	215	(9,673)	11,201
EBITDA for the year	1,902	71	106	154	(15)	(71)	2,147
Depreciation and amortization	322	145	314	55	5	(142)	699
Financing income	(11)	(13)	(3)	(7)	(72)	68	(38)
Financing expenses	71	179	213	50	170	(234)	449
Share in losses (income) of associated companies	(26)	4	(9)	(33)	301	(4)	233
Extraordinary or non-recurring income	27	–	–	–	–	–	27
	383	315	515	65	404	(312)	1,370
Income (loss) before taxes	1,519	(244)	(409)	89	(419)	241	777
Taxes on income	217	(65)	19	21	33	65	290
Income (loss) for the year	1,302	(179)	(428)	68	(452)	176	487
Other significant non-cash items:							
Decline in value of fixed and intangible assets	–	–	138	–	–	–	138
Segment assets	7,170	4,938	3,153	2,134	5,317	(8,781)	13,931
Investments in associated companies	174	10	18	312	832	(10)	1,336
							15,267
Sector liabilities	3,956	4,148	3,196	1,724	3,382	(5,292)	11,114
Capital expenses	736	260	42	759	–	(260)	1,537

(*) Restated – retroactive application – see Note 3B.
(1) Mainly adjustments deriving from the ORL segment.

Note 5 – Additional Information

A. The Corporation

1. In January 2013, S&P Maalot confirmed a rating for the Corporation's debentures (Series 3–9) of ilA+/stable.

2. In January 2013, the Corporation received (by means of a wholly-owned and controlled company) a loan, in the amount of $80 million, for a period of 4.5 years. In addition, in March 2013 the Corporation signed an agreement to renew credit that was scheduled for repayment on March 31, 2013, in the amount of $150 million, such that it will be repayable during a period of between 3 and 7 years.

3. In October 2012, the Corporation's Audit Committee and Board of Directors approved an investment in convertible capital notes of up to about $66 million in Better Place Inc. (hereinafter – "Better Place"). In November 2012 and February 2013, the Corporation invested about $66 million (about $33 million on each of the two dates) in capital notes convertible into preferred C shares or securities that will be issued in an additional fundraising round or issuance to the public. The capital notes are denominated in dollars and bear a benefit – partly at the rate of 12% per year and partly at the rate of 18% per year.

4. On May 24, 2013, the Board of Directors of Better Place made a decision regarding discontinuance of the activities of Better Place and its liquidation and in this framework, on May 26, 2013, a request for liquidation was filed in the District Court in Lod covering a number of its Israeli subsidiaries.

   Taking into account the above-mentioned decision, the approval process of the financial statements of Better Place for the first quarter of 2013 was not completed.

   Under the special circumstances of the matter, the Corporation contacted the Securities Authority in order to utilize its authority, among other things, under Regulation 23(J) of Securities Regulation s (Annual Financial Statements), 2010, and to exempt the Corporation from attaching the financial statements of Better Place to its financial statements, as required by Regulation 23 of the said Regulations.

   As a result of that stated above, the Corporation wrote off the balance of its investment in Better Place, which as at the date of the report amounted to about $29 million, this being in addition to the Corporation's share in the losses of Better Place for the three months ended March 31, 2013, which amounted to about $19 million. As at the date of the report, the balance of the Corporation's investment in Better Place in its books was written off in full and the Corporation has no guarantees and/or other commitments in connection with Better Place.

5. Further to that stated in Note 11.A.3(b) to the annual financial statements, in March 2013, the Corporation, through a subsidiary, and Chery Automobile Co. Ltd., each one, transferred the amount of about $64 million, to Qoros Automotive Co., Ltd. (hereinafter – "Qoros"), as part of the joint venture's business plan.

Note 5 – Additional Information (Cont.)

A. The Corporation (Cont.)

6. In March 2013, the Corporation converted all the convertible capital notes of Tower it held, into shares of Tower. After the conversion, the Corporation holds 39.4% of Tower's shares and about 30.5% of Tower's shares after the conversion, assuming conversion of all the capital notes held by the banks.

7. Regarding the Corporation's liability in respect of the financing agreement with the subsidiary I.C. Power – see Note 5.E.3.

8. The Group attaches to these financial statements, the financial statements of the associated company Qoros Automotive Ltd. – the reporting currency of which is the RMB. As at March 31, 2013, the exchange rate of the RMB vis-à-vis the dollar was 6.21 (as at December 31, 2012 – 6.23, a decline of 0.3%).

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

In the period of the report, 6,633,574 options of ICL were exercised for 312,558 of ICL's ordinary shares.

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

1. As at March 31, 2013, ZIM has a negative equity attributed to its owners in an amount of \$155 million. ZIM's operating loss amounted to \$48 million in the three months ended March 31, 2013 compared with an operating loss of \$116 million in the corresponding period last year. ZIM had negative EBITDA (earnings before interest, tax, impairment, depreciation, and amortization) of \$6 million in the three months ended March 31, 2013, compared with negative EBITDA of \$69 million in the corresponding period last year.

   In the opinion of ZIM's management and its Board of Directors, ZIM will meet its liabilities and operational needs for a period of at least 12 months after the date of the report. Regarding steps ZIM succeeded in taking in connection with obtaining wavers of financial covenants, postponement of debt payments and cancellation of ship construction orders – see Note 17.C.3 to the annual financial statements.

2. As at March 31, 2013, ZIM is in compliance with the updated financial covenants described in Note 17.C.3.5 to the Annual Financial Statements. The liquidity balance as at March 31, 2013, is about \$117 million (the minimum quarterly required liquidity balance is a \$80 million), the consolidated EBITDA for the last 12-month period is about \$165 million (the minimum consolidated EBITDA is about \$131 million.)

3. As at the approval date of the financial statements, with respect to certain loans for financing ships, the lenders agreed to postpone for one year (from March 31, 2014 to March 31, 2015) the "loan to value ratio" mechanism (that is, the obligation to repay a proportionate amount of the loan or to provide additional collaterals if the required ratio is not complied with), as described in Note 17.C.3.b.5 to the annual financial statements.

Note 5 – Additional Information (Cont.)

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

4. In connection with some of the agreements reached by ZIM with certain lenders during the period of the report:

   – A Coordination Committee of these lenders was appointed;

   – A new independent member of the Board of Directors was appointed to ZIM's Board of Directors in consultation with the Coordination Committee; and

   – A five-year business plan, accompanied by a plan to provide long-term stability to ZIM, was presented to the borrowers on April 30, 2013. The business plan presented includes a proposal for a change in the debt structure.

5. ZIM's management and Board of Directors believe that:

   a. ZIM will have sufficient sources of financing to support its operating needs and to meet its financial liabilities for a period of at least 12 months after the period of the report.

   b. ZIM will succeed in obtaining favorable agreements with lenders, which will permit obtaining financial stability of ZIM.

6. Regarding new agreements with two shipyards signed during the period of the report – see Note 22.C.3.c to the annual financial statements.

7. Subsequent to the date of the report, an agreement was signed between ZIM and the Coordination Committee, providing, among other things, the mutually agreed number of employees for early retirement. The estimate of the liability for early retirement is about $22 May 2013.

8. Subsequent to the date of the report, ZIM signed an agreement with an unrelated third party for transfer (by means of sale or dilution) of about 25% of the shares of a company accounted for by the equity method of accounting held by ZIM. Prior to the sale, ZIM held 50% of the shares of the company being sold. The agreement is contingent on preconditions, which in ZIM's estimation will be entirely fulfilled. The estimated capital gain expected from the transaction is about $8 million.

9. 8. Subsequent to the date of the report, ZIM signed an agreement with an unrelated third party for sale of its entire holdings in two companies – a subsidiary and an associated company (hereinafter – "the Container Companies"). The consideration set for sale of the Container Companies is about $50.5 million. The estimated capital gain ZIM expects to realize from the transaction, as stated, is about $31.5 million. Detailed agreements for sale of the shares of the Container Companies have not yet been signed, and the agreement is subject to preconditions.

Note 5 – Additional Information (Cont.)

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

1. In the period of the report, the ORL Group recorded operating income of about $38 million and an after-tax loss of about $3 million. In the year ended December 31, 2012, the ORL Group recorded an operating loss of about $91 million and an after-tax loss of about $198 million.

   As at March 31, 2013, ORL was in compliance with the financial covenants, except for with respect to the equity to total consolidated assets required for the private debentures, for second consecutive quarter, in respect of which the holders of the said debentures are entitled to additional interest. Non-compliance with this financial covenant for more than two consecutive quarters constitutes grounds for immediate repayment.

   Calling the private debentures for immediate repayment gives ORL's financing banks the right to call ORL's debts to them for immediate repayment.

   ORL estimates that even if it does not comply with the above-mentioned financial covenant in the second quarter of 2013, the probability that the debenture holders will call the debt to them for immediate repayment is low, due to the improvement in its operating results and the nature of the offer made by ORL and Carmel Olefins to the debenture holders, which also relates to ORL, as is described below.

   As at March 31, 2013, the balances of the working capital of ORL and of the ORL Group were a negative about $479 million and a negative about $452 million, respectively.

   In order to improve the profitability and the liquidity situation of the companies in the ORL Group, in 2012 and in the period of the report the companies in ORL Group have taken and are continuing to take, among others, the following steps:

   a. Completion of the Hydrocracker project – the project became operational commencing from January 2013. ORL is endeavoring to realize the full potential of the project's integration into ORL's facilities.

   b. Restructuring and realizing the synergy potential between the ORL Group companies.

   c. Use of natural gas as combustion material instead of fuel oil. Commencing from April 2013, ORL is receiving a supply of natural gas that is sufficient for all its needs.

   d. Transactions for available inventory with a foreign company and agreement with crude oil suppliers for transactions with extended credit term.

Note 5 – Additional Information (Cont.)

D. Oil Refineries Ltd. (hereinafter – “ORL”) (Cont.)

1. (Cont.)

e. ORL and subsidiaries are implementing an efficiency plan for 2013, which aims to maximize potential margins and reduce expenses. In this framework, among other things, the Board of Directors approved an early retirement plan for ORL employees and the multi-annual bonus for special projects was cancelled. ORL’s directors and members of its management decided to forego 10% of the salary they are entitled to during 2013. The efficiency plan includes, among other things, signing of a new collective bargaining agreement with the employees. Furthermore, a new collective bargaining agreement was signed with the employees.

After execution of the steps set forth above, the cash flows from the ORL Group’s operating activities in the three months ended March 31, 2013 is positive, amounting to $221 million.

2. In the first quarter of 2013, Carmel Olefins recognized operating income of about $2 million and an after-tax loss of about $8 million, and it realized positive cash flows from its operating activities of about $21 million.

As at March 31, 2013, Carmel Olefins has negative working capital of about $137 million.

In 2012, Midrug Ltd. (hereinafter – “Midrug”) lowered the rating of Carmel Olefin’s debentures to A3 with negative outlook. On January 24, 2013, Midrug announced that the debentures of Carmel Olefins had been placed on Credit Review, in order to assess the effect of ORL’s planned measures to assume the debts of Carmel Olefins.

Carmel Olefins has been informed that in the near future, Midrug is expected to discuss the possible downgrading of the rating of Carmel Olefins to Baa1 with a negative outlook, and Carmel Olefins contends there is no justification for this. Carmel Olefins believes there is no justification at the present time to lower the rating of Carmel Olefins for the following reasons:

a. Carmel Olefins’ financial and operational parameters have improved since the previous test date, and they are expected to continue to improve in the upcoming quarters, mainly due to supply of natural gas from the Tamar field in such a manner that is sufficient for all of its gas requirements.

b. There has been no event that justifies further assessment of the rating, and in accordance with the rating reports and methodology of Midrug and Moody's, the rating should be maintained at its current level until the annual assessment.

c. All the relevant and updated information about Carmel Olefins' business and financial position is available to its debenture holders, and the nature of the assessment t procedure performed by Midrug is credit review and not watch list.

Note 5 – Additional Information (Cont.)

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

2. (Cont.)

At the publication date of the financial statements, Carmel Olefins is unaware of a decision by Midrug regarding change of the rating of its debentures. It is noted that downgrading Carmel Olefins' rating below the rating in the A group, to the extent that it is downgraded, is currently grounds for Carmel Olefins' debenture holders to call the debentures for immediate repayment, in the total amount of about $243 million. If the debenture holders call Carmel Olefins' debt to them for immediate repayment, Carmel Olefins' debentures will be reclassified to short term in its financial statements. As a result, Carmel Olefins may fail to comply with the financial covenant of the current ratio (0.6), and then its financing banks will also have the right to call their loans for immediate repayment, in the amount of about $196 million.

ORL believes, based on the opinion of Carmel Olefins' Board of Directors, that even if the rating of Carmel Olefins' debentures is downgraded, as described in this section above, it is unlikely that Carmel Olefins' debentures holders will call the debt to them for immediate repayment, due to, among other things, the following reasons:

a. The operating results of the first quarter of 2013 indicate an improvement in the activities of Carmel Olefins and in the conditions of the markets in which it operates.

b. The proposal of Carmel Olefins and ORL to the debenture holders, as described above, which will be discussed at the General Meetings of the debenture holders of Carmel Olefins and ORL is, in the opinion of the Company and Carmel Olefins, a reasonable and fair proposal that was prepared after negotiations between Carmel Olefins, the Company, and their representatives and the investors holding a material percentage of their debentures.

c. Even if Carmel Olefins' rating is downgraded to Baa1, according to the rating methodology this is within the upper level of the Baa category, which includes liabilities having moderate credit risk that are considered as medium-grade liabilities.

d. The fact that Carmel Olefins' debenture holders are not secured creditors, while its financing banks hold collateral for the debt, including a fixed lien on its assets. A call for immediate repayment of Carmel Olefins' debentures may have a significant negative effect on the amount of repayment that the debenture holders will receive.

Note 5 – Additional Information (Cont.)

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

2. (Cont.)

Subsequent to the period of the report, on May 29, 2013, meetings of the holders of Carmel Olefins' debentures (Series A) and the holders of ORL's debentures (Series A, B and C and private debentures) were convened, to approve amendments proposed by Carmel Olefins to the deeds of trust of its debentures, according to which, during the period as from April 1, 2013 through to April 1, 2015 or an earlier date that ORL notifies the trustee in advance (hereinafter – "the Relevant Period"), ORL will provide the holders of Carmel Olefins debentures a guarantee limited as to time and amount, to ensure repayment of the entire principal of the debentures due for repayment by Carmel Olefins in the Relevant Period (hereinafter – "the ORL Guarantee"). In the Relevant Period, one of the grounds for immediate repayment of Carmel Olefins' debentures will be suspended, according to which if Carmel Olefins and/or the trustee receives notice from Midrug of a downgrade of the debentures (below A3) this will constitute grounds for calling the debentures for immediate repayment. At the end of the Relevant Period, including following submission of notice by ORL to the trustee regarding conclusion of the Relevant Period, the said grounds for immediate repayment will be reinstated, without requiring any further action.

On May 28, 2013, ORL gave notice of postponement of meetings of the debenture holders to a date that will be announced.

In addition, Carmel Olefins proposes the following changes, among others, to the terms of the deed of trust for the debentures, which will apply in the Relevant Period: the right to early redemption, during the Relevant Period, if Carmel Olefins makes early repayment to the banks that provided it long-term credit, of amounts stated in the proposal; adding grounds for calling the debentures for immediate payment: (a) if Carmel Olefins did not publish a financial statement which it is required to publish by law, within 30 days of the latest date it was required to publish it; (b) if Carmel Olefins' debentures were delisted from the TASE; change in the grounds in the deed of trust that provides a right to call the debentures for immediate repayment if any debt of Carmel Olefins is called for immediate repayment, so that the amount underlying the right exceeds $25 million (instead of NIS 50 million); addition of an instruction whereby Carmel Olefins will provide the trustee with any information required under section 35J of the Securities Law, 1968.

Carmel Olefins' proposal establishes grounds for termination of the validity of the amendment to the deed and preconditions for entry of the amendment into force, including approval of ORL's lenders.

Concurrently and in addition, Carmel Olefins' management is in the advanced stages of negotiations with the banks that provided it long-term credit for provision of a guarantee for payments of the loan principal according to a repayment schedule, in the period from April 1, 2013 through April 1, 2015, under terms agreed upon by the parties.

Note 5 – Additional Information (Cont.)

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

2. (Cont.)

   The amounts of the loan principal that Carmel Olefins is due to pay its debenture holders and the banks that provided it long-term credit, in the period up to April 1, 2015, amounts to about $135 million.

   Acceptance of Carmel Olefins' proposal to its debenture holders, as described above, is not under Carmel Olefins' exclusive control, since it is subject to consents of the holders of the debentures of Carmel Olefins and ORL, and of other financing entities.

   In the estimation of the managements of ORL and Carmel Olefins, based on the cash flows, together with the steps detailed above, ORL and Carmel Olefins have sufficient financing sources in the amount and at the times required for repayment of their liabilities and for financing their activities in the foreseeable future.

3. As at March 31, 2013, ORL recorded a decline in value of inventory, in the amount of about $24 million (the impact in the Corporation is a loss of about $9 million).

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

1. In the period of the report. I.C. Power invested about $69 million in the power station of O.P.C. Rotem Ltd. (hereinafter – "OPC") (a subsidiary of I.C. Power) and in the integrated power station of Kalpa.

2. During 2012, subsidiary of I.C. Power executed a financial close for receipt of bank financing, in the amount of $595 million, in connection with construction of a hydro project for production of electricity in Peru with a planned capacity of about 525 megawatts (hereinafter – "the Project"). The cost of the planned investment in the Project is about $900 million, including interest during the construction period. During 2013, Israel Corporation increased its guarantee to an estimated amount of about $83 million and Israel Corporation also committed that its holdings in Inkia Energy will not fall below the rate of 50.1% (which it currently holds, indirectly, at the rate of 100%). These commitments are valid up to completion of construction of the project, which is expected to take place in 2016.

3. In March 2013, the rating company Fitch raised the rating of Inkia Energy's international debt from a level of BB– to a level of BB with a stable rating outlook. The improved rating stemmed from commencement of the commercial activities of the combined cycle power station at Kalpa

Note 6 – Contingent Liabilities, Commitments and Concessions

A. As detailed in the Annual Financial Statements, claims have been filed against the ORL Group for alleged bodily injury and property damage caused to the plaintiffs stemming from pollution of the Kishon Stream, and there are also legal proceedings against the ORL Group, laws have been enacted and orders have been issued relating to the fuel and gas industry and infrastructure facilities belonging to the ORL Group. In the estimation of ORL's management, based on opinions of the legal advisors of ORL and its subsidiaries, it is not possible at this stage to estimate the impact of that stated above, if any, on the financial statements as at March 31, 2013 and, therefore, no provisions have been included in the financial statements relating to this matter.

B. Further to that stated in Note 22.B.1.d to the annual financial statements, on October 23, 2009, a claim was filed against the Corporation in the Federal court in the State of New York. Subsequent to the date of the report, in April 2013, at the request of V-Cars (the plaintiff), the Court instructed the appellants in the State of New York to cancel the plaintiff's appeal against the judgment of the District Court of New York which decided to summarily dismiss the plaintiff's claim against the Corporation. Accordingly, the said appeal process was dismissed and no legal claim whatsoever is pending against the Corporation regarding the matter. One cause of action between the plaintiff and Chery is awaiting arbitration.

With respect to the arbitration proceeding in Hong Kong that was carried on between the plaintiff and Chery further to the claim filed by the plaintiff against Chery, as the Corporation was informed, on April 4, 2013, the plaintiff filed a request to the Court to renew the proceedings, wherein enforcement of the arbitration in the amount of $1.265 million against Chery was requested, along with a request for an extension of time to file an amended statement of claim against Chery and individuals related to Chery based on causes of action under the Racketeer Influenced Corrupt Organizations Act. Chery filed its objections to aforesaid request and the plaintiff submitted its reply. To the best of the Corporation's knowledge, no decision has yet been rendered on the above-mentioned requests.

Taking into account the fact that the Corporation's attorneys are not inclined to express their opinion in connection with the proceeding, considering, among other things, the fact that the Corporation is not a party to the proceeding, and prior to clarification of the basis for the decisions against Chery, should there be any such decisions, it is too early to assess the potential application of the indemnification proceedings included in the joint venture agreement, to Chery and/or the Corporation, as applicable. In this framework, Quantum and Chery have committed to indemnify each other under certain circumstances.

C. Further to that stated in Note 22.B.1.c to the Annual Financial Statements, on December 23, 2012 a request was filed in the District Court of Tel-Aviv–Jaffa to approve a derivative claim in the name of the Corporation against the members of the Bod presently serving and against the Corporation's CEO, Mr. Nir Gilad (as well as the derivative claim itself). The cause of action of the claim involves allegations with respect to the timing of approval of issuance of the equity component, shortly before entry into effect of Amendment No. 20 to the Companies Law, and that the equity component granted to the CEO is unreasonable and exaggerated.

Subsequent to the date of the report, in May 2013, the Corporation filed its response to the request for approval the derivative claim, as was also done by the directors and Mr. Nir Gilad. A pretrial hearing was set for September 2013.

Note 6 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. (Cont.)

At this early stage, prior to the preliminary proceedings in the case having taken place, it is difficult for the Corporation to assess the chances of the claim and its risks, although in the Corporation's opinion, based on its legal advisors, the Corporation has good defense arguments to dispose of the request for certification of the derivative claim, and in any event, the derivative claim does not pose any threat of holding the Corporation liable for a monetary liability.

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

Note 7 – Financial Instruments

Fair value

(1) Fair value compared with book value

The book value of certain financial assets and financial liabilities, including cash and cash equivalents, trade receivables, other receivables, other short-term investments, deposits, derivatives, revolving credit with banks, short-term loans and credit, trade payables, other payables and dividends declared corresponds to or approximates their fair values.

The fair value of the balance of the other financial liabilities and their carrying value in the books which are presented in the statement of financial position, are as follows:

	As at March 31, 2013	
	Book value	Market value
	Unaudited	
	Millions of dollars	
Non-convertible debentures	2,490	2,921
Loans from banks and others	3,493	3,003

(2) Hierarchy of fair value

The following table presents an analysis of the financial instruments measured at fair value, using an evaluation method. The various levels were defined as follows:

– Level 1: Quoted prices (not adjusted) in an active market for identical instruments.
– Level 2: Observed data, direct or indirect, not included in Level 1 above.
– Level 3: Data not based on observed market data.

Note 7 – Financial Instruments (Cont.)

Fair value (Cont.)

	As at March 31, 2013			
	Level 1	Level 2	Level 3	Total
	$ millions			
Assets				
Marketable securities held for trade	45	–	–	45
Derivatives used for accounting hedge	–	23	–	23
Derivatives not used for accounting hedge	–	258	92	350
	45	281	92	418
Liabilities				
Derivatives used for accounting hedge	–	11	–	11
Derivatives not used for accounting hedge	–	72	2	74
	–	83	2	85

(3) Financial instruments measured at fair value at Level 3

The following table presents a reconciliation between the opening balance and the closing balance in connection with financial instruments measured at fair value at Level 3 in the fair value hierarchy:

	Book value	Market value
	Unaudited	
	Millions of dollars	
Balance as at January 1, 2012	107	(3)
Total income (losses) recognized in the statement of income	(15)	1
Balance as at March 31, 2013	92	(2)

Note 7 – Financial Instruments (Cont.)

Fair value (Cont.)

(4) Data regarding measurement of fair value at Level 2 and Level 3

Level 2

The fair value of forward contracts on foreign currency is determined using trading programs that are based on their market prices. The market price is determined based on a weighting of the exchange rates and an interest coefficient that is appropriate for the transaction period and the relevant currency index.

The fair value of currency options and fuel options is determined using trading programs that are based on the "Black and Scholes" model, which takes into account the internal value, standard deviation and interest rates.

The fair value of interest swaps and fuel swaps is determined using trading programs and is based on the market price which is arrived at by discounting the estimated future cash flows based on the terms and the length of the period to maturity of each contract using interest rates and a market standard deviation of a similar instrument as at the measurement date.

The fair value of currency and interest rate swaps is based on the market prices for discounting the future cash flows on based on the terms and the length of the period to maturity of each transaction and using market interest rates of a similar instrument as at the measurement date.

The fair value of transactions hedging the rate of the index is based on the market prices and discounting of the future cash flows based on the terms and the length of the period to maturity of each transaction using interest rates and a market standard deviation of a similar instrument as at the measurement date.

Level 3

The fair value of derivative financial assets at Level 3 is measured every quarter by an outside appraiser who uses the "Black" model. The "Black" model is an adjustment to the "Black and Scholes" model and is used to measure options. Measurement of the value was examined by professional parties in the Group.

Despite the fact that the Group believes that the fair values determined for measurement and/or disclosure are appropriate, use of different assumptions or different measurement methods could cause a change in the fair values. Regarding measurement of fair value, a reasonable change in one or more of the assumptions could increase (decrease) the income (loss) and the equity as shown below:

Note 7 – Financial Instruments (Cont.)

Fair value (Cont.)

(4) Data regarding measurement of fair value at Level 2 and Level 3 (Cont.)

	As at March 31, 2013	
	Change in Income (Loss) and Equity	
	Increase of 10%	Decrease of 10%
	Millions of dollars	
Change in the discount rate*	6	(8)
Change in the standard deviation of the yield to maturity of the debentures**	13	(14)

A change in the standard deviation of the lease fee tariffs does not have a significant impact on the Corporation's financial statements.

* Based on ZIM's yield curve.
** As at March 31, 2013, the standard deviation is 59.1%–67.8%.

Israel Corporation Ltd.

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

As at March 31, 2013

(Unaudited)

Israel Corporation Ltd.
Condensed Separate Information provided in
accordance with Regulation 38D of the Securities Regulations
(Periodic and Immediate Reports), 1970
As at March 31, 2013
Unaudited

Contents

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To the Shareholders of Israel Corporation Ltd.

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

Introduction

We have reviewed the separate-company interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970, of Israel Corporation Ltd. (hereinafter – "the Corporation") as at March 31, 2013 and for the period of three months ended on that date. The separate-company interim financial information is the responsibility of the Corporation's Board of Directors and Management. Our responsibility is to express a conclusion on the separate-company interim financial information based on our review.

We did not review the condensed interim financial information of an investee company, the investment in which is about $10 million as at March 31, 2013 and the Corporation's share in its loss is about $7 million for the period of three months ended March 31, 2013. The financial statements of this company were reviewed by other auditors whose review report was provided to us and our conclusion, insofar as it relates to amounts included in respect of this company, is based on the review report of the other auditors.

Scope of the Review

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

Conclusion

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

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

1. That stated in Note 5.C.4-5 to the Corporation's consolidated financial statements regarding estimates of a subsidiary (ZIM) in connection with its ability to produce sufficient financing sources in order to meets its operating needs and its financial liabilities, as well as to reach agreements with its creditors that will enable it to achieve financial stability.

2. That stated in Note 5.D.1-2 to the Corporation's consolidated financial statements regarding the financial position of an associated company (ORL) and its subsidiaries and the plans of their managements in this connection, and that stated in Note 6.A regarding legal claims filed against the associated company and its investee companies as well as other contingencies. The above-mentioned managements, based on opinions of their legal advisors, are not able, at this stage, to estimate the impact, if any, of that stated above on the financial statements and, accordingly, no provisions in respect thereof have been included in the financial statements.

Somekh Chaikin
Certified Public Accountants (Isr.)

May 29, 2013

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at March 31, 2013
Condensed Interim Statements of Financial Position Information

	At March 31		At December 31
	2013	**2012**	**2012**
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Current Assets			
Cash and cash equivalents	**298**	494	615
Short-term deposits	**401**	27	246
Loans to investee companies	**100**	90	122
Other receivables and debit balances	**44**	73	1
Derivative instruments	**70**	65	61
Income taxes receivable	**–**	4	5
Total current assets	**913**	753	1,050
Non-Current Assets			
Investments in investee companies	**2,672**	*3,162	*2,760
Investments in other companies	**1**	3	1
Loans to investee companies	**799**	635	724
Debit balances, including derivative instruments	**305**	310	305
Total non-current assets	**3,777**	4,110	3,790
Total assets	**4,690**	4,863	4,840

* Restated – retroactive application – see Note 3B to the Corporation's consolidated financial statements.

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at March 31, 2013
Condensed Interim Statements of Financial Position Information

	At March 31		At December 31
	2013	**2012**	**2012**
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Current Liabilities			
Current maturities in respect of non-current liabilities	**406**	517	552
Other payables and credit balances	**19**	18	24
Dividend payable	**–**	120	–
Derivative instruments	**23**	34	31
Income taxes payable	**33**	–	–
Total current liabilities	**481**	689	607
Non-Current Liabilities			
Loans from banks	**853**	693	741
Debentures	**1,060**	1,120	1,147
Long-term liabilities, including derivative instruments	**78**	74	86
Total non-current liabilities	**1,991**	1,887	1,974
Total liabilities	**2,472**	2,576	2,581
Equity			
Share capital and premium	**285**	285	285
Capital reserves	**127**	118	148
Capital reserve for transactions with controlling shareholder	**175**	147	175
Retained earnings	**1,631**	*1,737	*1,651
Total equity attributable to the owners of the Corporation	**2,218**	2,287	2,259
Total liabilities and equity	**4,690**	4,863	4,840

* Restated – retroactive application – see Note 3B to the Corporation's consolidated financial statements.

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

Approval date of the financial statements: May 29, 2013

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at March 31, 2013
Condensed Interim Statements of Income Information

	For the		
	Three Months Ended March 31		Year Ended December 31
	2013	2012	2012
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Administrative and general expenses	**(5)**	(4)	(14)
Other expenses	**(29)**	–	–
Other income	**–**	6	5
Operating income (loss)	**(34)**	2	(9)
Financing expenses	**(40)**	(58)	(157)
Financing income	**35**	36	93
Financing expenses, net	**(5)**	(22)	(64)
Share in income (losses) of investee companies, net	**11**	(52)	(40)
Loss before taxes on income	**(28)**	(72)	(113)
Taxes on income	**13**	10	33
Loss for the period attributable to the owners of the Corporation	**(41)**	(82)	(146)

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at March 31, 2013
Condensed Interim Statements of Comprehensive Income Information

	For the Three Months Ended March 31		For the Year Ended December 31
	2013	**2012**	**2012**
	(Unaudited)		**(Audited)**
	In Millions of U.S. Dollars		
Income (loss) for the period	**(41)**	(82)	(146)
Components of other comprehensive income			
Effective portion of the change in fair value of cash flow hedges	**(12)**	–	1
Net change in fair value of cash flow hedges transferred to the statement of income	**(2)**	1	2
Other comprehensive income (loss) in respect of investee companies, net	**(5)**	19	22
Total other comprehensive income (loss) for the period, net of tax	**(19)**	20	25
Total comprehensive oss for the period attributable to the owners of the Corporation	**(60)**	(62)	(121)

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at March 31, 2013
Condensed Interim Statements of Cash Flows Information

	For the Three Months Ended March 31		For the Year Ended December 31
	2013	2012	2012
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Cash flows from operating activities			
Loss for the period	**(41)**	(82)	(146)
Adjustments:			
Financing expenses, net	**5**	21	63
Share in losses (income) of investee companies, net	**(11)**	52	40
Capital gains, net	**29**	(6)	(5)
Share-based payment transactions	**3**	2	5
Loss from investment in securities available for sale	**–**	1	1
Taxes on income	**13**	10	33
	(2)	(2)	(9)
Change in receivables and income tax receivable	**8**	1	(21)
	6	(1)	(30)
Income tax received	**23**	–	–
Dividend received	**80**	–	591
Net cash provided by (used in) operating activities	**109**	(1)	561
Cash flows from investing activities			
Investments in investee and other companies	**(33)**	–	(57)
Short-term deposits and loans, net	**(158)**	142	(82)
Provision of long-term loans to investee companies	**(64)**	(106)	(176)
Interest received	**3**	8	14
Proceeds from sale of derivatives, net	**18**	15	17
Net cash provided by (used in) investing activities	**(234)**	59	(284)
Cash flows from financing activities			
Acquisition of non-controlling interests	**–**	(8)	(8)
Dividend paid	**–**	–	(120)
Receipt of long-term loans and issuance of debentures	**150**	198	506
Repayment of long-term loans and debentures	**(303)**	(187)	(397)
Interest paid	**(39)**	(43)	(123)
Payment for settlement of derivatives used for hedging	**(1)**	(1)	(2)
Net cash used in financing activities	**(193)**	(41)	(144)
Net increase (decrease) in cash and cash equivalents	**(318)**	17	133
Cash and cash equivalents at the beginning of the period	**615**	476	476
Effect of exchange rate fluctuations on balances of cash and cash equivalents	**1**	1	6
Cash and cash equivalents at the end of the period	**298**	494	615

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at March 31, 2013
Additional Information

1. General

The interim separate-company financial information is presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970, and the Tenth Addendum to the Securities Regulations (Periodic and Immediate Reports), 1970, regarding separate-company financial information of an entity. The interim separate-company financial information should be read together with the separate-company financial information as at December 31, 2012 and for the year then ended and together with the condensed consolidated financial statements as at March 31, 2013.

In this separate-company interim financial information:

A. The Corporation – Israel Corporation Ltd.

B. Subsidiaries – Companies, including partnerships, the financial statements of which are fully consolidated, directly or indirectly, with those of the Corporation.

C. Investee companies – Subsidiaries and companies, including partnerships or joint ventures, where the Corporation's investment therein is included, directly or indirectly, in the financial statements using the equity basis of accounting.

2. Commitments and Significant Transactions with Investee Companies

A. In February 2013, a dividend was received from an investee company, in the amount of about $80 million.

B. In the period of the report, an investee company issued to the Corporation, in the amount of about $64 million.

C. Regarding additional information with respect to the Corporation and significant transactions with investee companies – see Note 5 to the consolidated financial statements.

Israel Corporation Ltd.

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

As at March 31, 2013

(Unaudited)

Quarterly Report regarding Effectiveness of the Internal Control over the Financial Reporting and the Disclosure in accordance with Regulation 9B(a):

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

For this purpose, the members of management are:

Nir Gilad, CEO;

Avisar Paz, CFO;

Eran Sarig, Deputy CEO of Business and Strategic Development;

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

Eli Goldschmidt, Deputy CEO of Communications and Regulations.

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

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

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

In the Annual Report regarding the effectiveness of the internal control over the financial reporting and the disclosure, which was attached to the Periodic Report for the period ended December 31, 2012 (hereinafter – “the Latest Annual Report regarding the Internal Control”), the Board of Directors and Management evaluated the Corporation’s internal control; based on this evaluation, the Corporation’s Board of Directors and Management reached the conclusion that the internal control as stated, as at December 31, 2012, is effective.

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

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

Management Representation

Declaration of the CEO

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

I, Nir Gilad, declare that:

(1) I have examined the interim financial statements of Israel Corporation Ltd. (hereinafter – "the Corporation") as at March 31, 2013 (hereinafter – "the Statements").

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

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

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

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

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

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

   (a) Have determined controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, which are designed to ensure that significant information relating to the Corporation, including its subsidiaries as defined in the Securities Regulations (Preparation of Annual Financial Statements), 2010, to the extent it is relevant to the financial statements and the other information presented in the Statements is brought to my attention by others in the Corporation and the subsidiaries, particularly during the period of preparation of the Statements; and –

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

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

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

May 29, 2013

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Nir Gilad, CEO

Management Representation

Declaration of the most Senior Officer in the Finance Area

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

I, Avisar Paz, declare that:

(1) I have examined the interim financial statements and the other financial information included in in the statements for interim periods of Israel Corporation Ltd. (hereinafter – "the Corporation") as at March 31, 2013 (hereinafter – "the Statements").

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

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

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

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

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

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

(a) Have determined controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, which are designed to ensure that significant information relating to the Corporation, including its subsidiaries as defined in the Securities Regulations (Annual Financial Statements), 2010, to the extent it is relevant to the financial statements and the other information presented in the Statements is brought to my attention by others in the Corporation and the subsidiaries, particularly during the period of preparation of the Statements; and –

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

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

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

May 29, 2013

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Avisar Paz, CFO

Qoros Automotive Co., Ltd.
(formerly known as Chery Quantum Auto Co., Ltd.)

Financial statements

31 December 2012

Independent auditors' report to the board of directors of
Qoros Automotive Co., Ltd.
(Established in the People's Republic of China with limited liability)

We have audited the accompanying financial statements of Qoros Automotive Co., Ltd. (formerly known as Chery Quantum Auto Co., Ltd.) ("the Company"), which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

50th Floor, Plaza 66
1266 Nanjing West Road
Shanghai, China

Date:

Statement of comprehensive income

for the year ended 31 December

In thousands of RMB	Note	*2012*	*2011*
Research and development expenses	4	(342,508)	(550,102)
Administration expenses		(341,058)	(181,225)
Other expenses		(1,759)	(5,845)
Other income		12,672	1,179
Results from operating activities		(672,653)	(735,993)
Finance income	5(a)	38,003	49,725
Finance costs	5(a)	-	(14,965)
Net finance income	5(a)	38,003	34,760
Loss before income tax		(634,650)	(701,233)
Income tax expense	6	-	-
Loss for the year		(634,650)	(701,233)
Other comprehensive income			
Net change in fair value of available-for-sale financial assets		5,158	27,446
Net change in fair value of available-for-sale financial assets reclassified to profit or loss	5(a)	(5,158)	(27,446)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		(634,650)	(701,233)

The notes on pages 7 to 38 form part of these financial statements.

Statement of financial position

as at 31 December

In thousands of RMB	Note	*2012*	*2011*
Assets			
Property, plant and equipment	7	1,671,065	310,382
Intangible assets	8	1,270,840	385,481
Prepayments for purchase of equipment		204,749	38,106
Lease prepayments	9	216,954	249,202
Other receivables	10	118,429	31,020
Pledged deposits		-	42,836
Non-current assets		3,482,037	1,057,027
Other receivables	10	247,274	51,676
Available-for-sale financial assets	13	-	440,000
Prepayments		17,141	8,172
Pledged deposits	11	58,681	2,917
Cash and cash equivalents	12	1,094,434	1,047,186
Current assets		1,417,530	1,549,951
Total assets		4,899,567	2,606,978

The notes on pages 7 to 38 form part of these financial statements.

Statement of financial position

as at 31 December 2012

In thousands of RMB	Note	*2012*	*2011*
Equity			
Paid-in capital	14	4,231,840	3,481,840
Reserves		74	74
Accumulated losses		(1,948,728)	(1,314,078)
Total equity		2,283,186	2,167,836
Liabilities			
Finance lease liabilities	15	-	5,350
Deferred income	16	201,157	-
Loans and borrowings	17	1,632,000	-
Non-current liabilities		1,833,157	5,350
Loans and borrowings	17	270,566	80,000
Other payables	18	496,721	348,302
Deferred income	16	10,587	-
Finance lease liabilities	15	5,350	5,490
Current liabilities		783,224	433,792
Total liabilities		2,616,381	439,142
Total equity and liabilities		4,899,567	2,606,978

Approved and authorised for issue by the Board of Directors.

Guo Qian	Volker Steinwascher	John Meng
Chairman and CEO	*Vice-Chairman*	*CFO*

Date:

The notes on pages 7 to 38 form part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2012

In thousands of RMB	Paid-in capital	Capital Reserve	Accumulated losses	Total
Balance at 1 January 2011	2,921,840	-	(612,845)	2,308,995
Capital injection from investors	560,000	74	-	560,074
Loss for the year	-	-	(701,233)	(701,233)
Other comprehensive for the year	-	-	-	-
Balance at 31 December 2011 and 1 January 2012	3,481,840	74	(1,314,078)	2,167,836
Capital injection from investors	750,000	-	-	750,000
Loss for the year	-	-	(634,650)	(634,650)
Other comprehensive for the year	-	-	-	-
Balance at 31 December 2012	4,231,840	74	(1,948,728)	2,283,186

The notes on pages 7 to 38 form part of these financial statements.

Statement of cash flows

for the year ended 31 December

In thousands of RMB	*2012*	*2011*
Cash flows from operating activities		
Loss for the year	(634,650)	(701,233)
Adjustments for:		
Depreciation	15,185	11,329
Amortisation of		
- intangible assets	2,583	819
- lease prepayments	5,072	5,579
Net finance income	(27,401)	(32,713)
Gain on disposal of lease prepayments	(10,586)	-
	(649,797)	**(716,219)**
Changes in:		
- other receivables	(184,786)	(29,879)
- prepayments	(8,969)	(8,152)
- other payables	73,207	(103,397)
- deferred income	211,744	-
Net cash used in operating activities	**(558,601)**	**(857,647)**
Cash flows from investing activities		
Interest received	29,180	20,232
Proceeds from disposal of available-for-sale financial assets	2,460,000	2,693,387
Proceeds from disposal of lease prepayment	258,393	-
Collection of pledged deposits	5,608	106,000
Acquisition of property, plant and equipment and intangible assets	(1,448,430)	(346,704)
Acquisition of lease prepayment	(220,631)	-
Acquisition of available-for-sale financial assets	(2,020,000)	(2,708,000)
Placement of pledged deposits	(18,536)	(151,753)
Development expenditures	(874,480)	(86,450)
Net cash used in investing activities	**(1,828,896)**	**(473,288)**

The notes on pages 7 to 38 form part of these financial statements.

Condensed statement of cash flows (continued)

for the year ended 31 December

In thousands of RMB		*2012*	*2011*
Cash flows from financing activities			
Capital injection from investors		750,000	560,074
Proceeds from borrowings		1,935,993	80,000
Repayment of borrowings		(113,427)	-
Placement of guarantee deposit		(100,000)	-
Interest paid		(37,821)	(13,860)
Net cash from financing activities		**2,434,745**	**626,214**
Net increase/(decrease) in cash and cash equivalents		**47,248**	**(704,721)**
Cash and cash equivalents at 1 January		1,047,186	1,751,907
Cash and cash equivalents at 31 December	12	**1,094,434**	**1,047,186**

The notes on pages 7 to 38 form part of these financial statements.

Notes to the financial statements

1 Reporting entity

Qoros Automotive Co., Ltd. (formerly known as Chery Quantum Auto Co., Ltd.) ("the Company") is a sino-foreign joint equity enterprise established on 24 December 2007 in the People's Republic of China ("PRC") by Wuhu Chery Automobile Investment Co., Ltd ("Wuhu Chery") and Quantum (2007) LLC. The Company's registered office is Changshu, Jiangsu Province, PRC. In 2012, the Company changed its legal name from Chery Quantum Auto Co., Ltd. to Qoros Automotive Co., Ltd. A revised business licence (No.340000400000672) was obtained on 15 May 2012.

The Company's period of operation is 25 years and its principal activities are research and development, manufacture and sale of automobiles and related fittings and spare parts.

The statutory financial statements of the Company as at and for the year ended 31 December 2012 and 2011 were prepared under PRC GAAP.

2 Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except that the financial instruments classified as available-for-sale are measured at their fair value (see note 3 (b)(i)).

(c) Functional and presentation currency

These financial statements are presented in RMB, which is the Company's functional currency. All financial information presented in RMB has been rounded to the nearest thousand, except when otherwise indicated.

2 Basis of preparation (continued)

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

Research and development costs

Determining capitalisation of development costs involves management judgements in assessing whether a product is technically and commercially feasible, future economic benefits are probable and the Company has sufficient resources to complete development and to use or sell the asset. During the process of formulation of relevant cash flow forecasts for quantifying the future economic benefits generated from the new product, a variety of assumptions, bases and estimations including market popularity of the products, the pricing trend of raw materials acquired, and etc. would have to be made by the management. Thus, any significant deviations from these assumptions, bases as well as estimations made by the management would have impact on determining whether the related development costs incurred should be capitalised or expensed.

Depreciation and amortisation

Property, plant and equipment, intangible assets and lease prepayments are depreciated/amortised on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Company reviews annually the useful life of an asset and its residual value, if any. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

2 Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

Impairment for non-current assets

The management determines the impairment loss on non-current assets if circumstances indicate that the carrying value of an asset may not be recoverable. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to level of sales volume, sales revenue and amount of operating costs. The Company uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, sales revenue and amount of operating costs.

Deferred taxation

Determining recognition of deferred tax assets in respect of accumulated tax losses and deductible temporary differences involves judgement on whether it is probable that future taxable profits against which these losses can be utilised within the unexpired period and which the temporary differences can be deducted under current tax legislation will be available.

(e) Change in accounting policy

The International Accounting Standards Board has issued a few amendments to IFRSs that are first effective for the current accounting period of the Company. None of these developments are relevant to the Company’s financial statements and the Company has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 Significant accounting policies

The accounting polices set out below have been applied consistently to all periods presented in these financial statement.

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss.

(b) Financial instruments

(i) Non-derivative financial assets

The Company initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

3 Significant accounting policies (continued)

(b) Financial instruments (continued)

(i) Non-derivative financial assets (continued)

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, pledged deposits and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to maturity investments, or financial assets at fair value through profit or loss. Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Available-for-sale financial assets represent debt securities.

(ii) Non-derivative financial liabilities

All the financial liabilities are recognised initially at fair value on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument, plus any directly attributable transaction costs.

Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Other financial liabilities comprise loans and borrowings and other payables.

3 Significant accounting policies (continued)

(b) Financial instruments (continued)

(iii) Paid-in capital

Paid-in capital is classified as equity.

(c) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the followings:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- when the Company has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalised borrowing costs.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Company. Ongoing repairs and maintenance is expensed as incurred.

3 Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

(iii) Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is generally recognized in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. No depreciation is provided on construction in progress.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

• Electronic and office equipment	3-5 years
• Leasehold improvements	3 years
• Tools and moulds	5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(d) Intangible assets

(i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

3 Significant accounting policies (continued)

(d) Intangible assets (continued)

(ii) Other intangible assets

Other intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(iv) Amortisation

Intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives, from the date that they are available for use.

The estimated useful life for the current and comparative years is as follows:

Software	10 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(e) Leased assets

Assets held by the Company under leases which transfer to the Company all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Company's statement of financial position.

(f) Lease prepayments

All land in PRC is state-owned and no private land ownership exists. The Company acquired the right to use certain land and the premiums paid for such right are recorded as lease prepayment. Lease prepayment is carried at historical cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over the respective periods of the rights.

3 Significant accounting policies (continued)

(g) Impairment

(i) Non-derivative financial assets

A financial asset not classified at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that an be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security.

Loans and receivables

The Company considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment, the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a loan and receivable is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

3 Significant accounting policies (continued)

(g) Impairment (continued)

(i) Non-derivative financial assets (continued)

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the loss accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment losses recognised previously in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Company’s non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in profit or loss.

An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3 Significant accounting policies (continued)

(h) Government grant

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant, and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Grant that compensate the Company for expenses incurred are recognised in profit or loss as other income on a systematic basis in the periods in which the expenses are recognised.

(i) Employee benefits

(i) Contributions to defined contribution retirement plans in the PRC

Contributions to local retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred.

(ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus plans if the Company has a present legal or constructive obligations to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

3 Significant accounting policies (continued)

(j) Leases

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expenses, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(ii) Determining whether an arrangement contains a lease

An inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

- The fulfilment of the arrangement is dependent on the use of a specific asset or assets; and

- The arrangement contains a right to use the asset(s)

At inception or on reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Company's incremental borrowing rate.

3 Significant accounting policies (continued)

(k) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), gains on the disposal of available-for-sale financial assets. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and losses on disposal of available-for-sale financial assets.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(l) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted by the reporting date.

3 Significant accounting policies (continued)

(l) Income tax (continued)

(ii) Deferred tax *(continued)*

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(iii) Tax exposure

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(m) Related parties

(a) A person, or a close member of that person’s family, is related to the Company if that person:

(i) has control or joint control over the Company;
(ii) has significant influence over the Company; or
(iii) is a member of the key management personnel of the Company or the Company’s parent or ultimate controlling shareholders.

3 Significant accounting policies (continued)

(m) Related parties (continued)

(b) An entity is related to the Company if any of the following conditions applies:

- (i) The entity and the Company are members of the same group;
- (ii) One entity is an associate or joint venture of the other entity (or an associate of joint venture of a member of a group of with the other entity is a member);
- (iii) Both entities are joint ventures of the same third party;
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) The entity is a post-employment benefit plan for the benefit of employees of the Company or an entity related to the Company;
- (vi) The entity is controlled or jointly controlled by a person identified in (a);
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity);

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(n) New Standards and interpretation not yet adopted

Up to the date of issue of these financial statements, a number of amendments and interpretations and new standards have been issued which are not yet effective for the year ended 31 December 2012 and have not been adopted in these financial statements. These include the following which may be relevant to the Company.

	Effective annual financial periods beginning on or after
• Amendments to IAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
• IFRS 9, *Financial instruments*	1 January 2013
• IFRS 13, *Fair value measurement*	1 January 2013
• Revised IAS 19, *Employee benefits*	1 January 2013
• Amendments to IFRS 7, *Financial instruments: Disclosures – Disclosures - Offsetting financial assets and* financial liabilities	1 January 2013
• Annual improvements to IFRSs – 2009-2011 Cycle Financial instruments:	1 January 2013

The Company is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's financial position and results of operations.

4 Research and development expenses

Research and development expenses are the expenses incurred for the research and development activities of car models and platform including CF11, CF14, CF16, CF14K and CF1X.

In thousands of RMB	*2012*	*2011*
CF11, CF14, CF16, CF14K and CF1X	342,508	550,102

5 Loss before income tax

Loss for the year is arrived at after charging/(crediting):

In thousands of RMB	*2012*	*2011*
(a) Net finance income:		
Interest income from available-for-sale financial assets	5,158	27,446
Interest income	22,243	20,232
Net foreign exchange gain	10,602	2,047
Finance income	38,003	49,725
Interest expense (Note 7&8)	-	(14,965)
Finance costs	-	(14,965)
Net finance income	38,003	34,760
(b) Staff costs:		
Contributions to defined contribution retirement plan	(9,545)	(7,059)
Salaries, wages and other benefits	(193,220)	(132,206)
	(202,765)	(139,265)

5 Loss before income tax (continued)

(c) Other items:

Amortisation		
- lease prepayment	(5,072)	(5,579)
- intangible assets	(2,583)	(819)
	(7,655)	(6,398)
Depreciation		
- property, plant and equipment	(15,185)	(11,329)
Operating lease charges		
- hire of office rentals	(24,763)	(14,422)
- hire of cars	(4,870)	(2,114)
	(29,633)	(16,536)

6 Income taxes

Current tax expenses

The statutory corporate income tax rate of the Company is 25% (2011: 25%).

No current tax expenses were recognised in the statement of comprehensive income. The Company utilises previously tax losses in 2012 and deferred tax assets have not been recognised in respect of deductible temporary differences and cumulative unutilised tax losses because it is not probable that future taxable profit will be available against which the Company can utilise the benefits therefrom.

Reconciliation of effective tax rate

In thousands of RMB	*2012*	*2011*
Loss before taxation	(634,650)	(701,233)
Income tax credit at the applicable PRC income tax rate of 25%	(158,663)	(175,308)
Current year losses for which no deferred tax asset is recognised	158,193	174,929
Non-deductible expenses	470	379
Income tax expense	-	-

6 Income taxes (continued)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

In thousands of RMB	*As at 31 December 2012*
Deductible temporary differences	1,598,735
Cumulative unutilised tax losses	245,248
Total	1,843,983

Under current tax legislation, the above deductible tax losses will expire in the following years:

In thousands of RMB	*As at 31 December 2012*
2013	84,064
2014	51,523
2015	92,479
2016	-
2017	17,182
	245,248

7 Property, plant and equipment

In thousands of RMB	Leasehold Improvements	Equipment	Construction in progress	Total
Cost				
Balance at 1 January 2011	4,945	5,374	5,267	15,586
Additions	3,103	24,453	294,986	322,542
Transfer to intangible assets	-	-	(12,815)	(12,815)
Balance at 31 December 2011	8,048	29,827	287,438	325,313
Additions	3,235	29,450	1,359,601	1,392,286
Transfer to intangible assets	-	-	(16,418)	(16,418)
Balance at 31 December 2012	11,283	59,277	1,630,621	1,701,181
Depreciation				
Balance at 1 January 2011	(2,119)	(1,483)	-	(3,602)
Depreciation for the year	(3,031)	(8,298)	-	(11,329)
Balance at 31 December 2011	(5,150)	(9,781)	-	(14,931)
Depreciation for the year	(3,489)	(11,696)	-	(15,185)
Balance at 31 December 2012	(8,639)	(21,477)	-	(30,116)
Carrying amount				
Balance at 1 January 2011	2,826	3,891	5,267	11,984
Balance at 31 December 2011	2,898	20,046	287,438	310,382
Balance at 31 December 2012	2,644	37,800	1,630,621	1,671,065

Leased plant and machinery

The Company leases a data centre under a finance lease agreement. As at 31 December 2012, the net carrying amount of leased plant and equipment was RMB 4,876 thousand (2011: RMB 10,937 thousand).

Property, plant and equipment under construction

In 2011, the Company commenced construction of a new factory in Changshu, Jiangsu Province and construction costs incurred up to 31 December 2012 totalled RMB 914 million (2011: RMB 236 million).

Included in construction in progress is an amount of RMB 3,576 thousand represents borrowing costs capitalised during the year using a capitalisation rate of 3.52%~6.89%.

As at 31 December, all construction in progress was pledged to bank as security for a consortium financing agreement. (Note 17)

8 Intangible assets

In thousands of RMB	Software	Development Costs	Total
Cost			
Balance at 1 January 2011	2,397	-	2,397
Additions	9,733	361,484	371,217
Transfer from construction in progress	12,815	-	12,815
Balance at 31 December 2011	24,945	361,484	386,429
Additions	2,052	869,472	871,524
Transfer from construction in progress	16,418	-	16,418
Balance at 31 December 2012	43,415	1,230,956	1,274,371
Amortisation			
Balance at 1 January 2011	(129)	-	(129)
Amortisation for the year	(819)	-	(819)
Balance at 31 December 2011	(948)	-	(948)
Amortisation for the year	(2,583)	-	(2,583)
Balance at 31 December 2012	(3,531)	-	(3,531)
Carrying amount			
Balance at 1 January 2011	2,268	-	2,268
Balance at 31 December 2011	23,997	361,484	385,481
Balance at 31 December 2012	39,884	1,230,956	1,270,840

The amortisation of software is included in administration expenses in the statement of comprehensive income.

Included in capitalised development costs is an amount of RMB 39,264 thousand, that represents borrowing costs capitalised during the period using a capitalisation rate of 3.52%~6.89%.

9 Lease prepayments

In thousands of RMB	*2012*	*2011*
Cost		
Balance at 1 January	268,729	268,729
Addition for the year	220,631	-
Disposal for the year	(268,729)	-
Balance at 31 December	220,631	268,729
Amortisation		
Balance at 1 January	(19,527)	(13,948)
Amortisation for the year	(5,072)	(5,579)
Written back on disposal	20,922	-
Balance at 31 December	(3,677)	(19,527)
Carrying amount		
Balance at 1 January	249,202	254,781
Balance at 31 December	216,954	249,202

As at 31 December 2012, the Company's lease prepayments represented the lease prepayments of land use rights located in Changshu, Jiangsu Province. Such lease prepayments were pledged to bank as security for a consortium financing agreement. (Note 17)

Lease prepayments of land use right located in Wuhu, Anhui Province with a carrying amount of RMB 247,807 thousand were disposed of in June 2012, resulting in a gain on disposal of RMB 10,586 thousand, which is included in "other income" in the condensed statement of comprehensive income for the year ended 31 December 2012.

10 Other receivables

In thousands of RMB		*2012*	*2011*
Value-added tax deductible		205,095	24,677
Deposits		70,489	6,951
Deferred expenses		45,384	-
Receivables due from employees		40,766	46,358
Receivables due from related parties	22(c)	1,796	757
Others		2,569	4,349
		366,099	83,092
Less: allowance for doubtful debts		(396)	(396)
		365,703	82,696
Non-current		118,429	31,020
Current		247,274	51,676
		365,703	82,696

11 Pledged deposits

Bank deposits of RMB 58,681 thousand (as at 31 December 2011: RMB 45,753 thousand) have been pledged as security for bank guarantee and a letter of credit facility. The pledge in respect of the bank deposits will be released when the relevant bank guarantee and the letter of credit facility expires in year 2013.

12 Cash and cash equivalents

All the balances of cash and cash equivalents as at 31 December 2012 are call deposits at bank.

13 Available-for-sale financial assets

Available-for-sale financial assets as at 31 December 2011 represented the short-term investments (maturity period within one month) which were issued by a licensed trust company in China. All these investments matured in 2012.

14 Paid-in capital

In thousands of RMB	*2012*	*2011*
Wuhu Chery	2,115,920	1,740,920
Quantum (2007) LLC.	2,115,920	1,740,920
	4,231,840	3,481,840

15 Finance lease liabilities

As at 31 December 2012, the Company had obligations under finance leases repayable as follows:

In thousands of RMB	*31 December 2012*			*31 December 2011*		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	5,522	172	5,350	6,025	535	5,490
Between one and five years	-	-	-	5,522	172	5,350
	5,522	172	5,350	11,547	707	10,840

16 Deferred income

In November 2012, the Company received RMB 213.5 million from the Management Committee of Changshu Economic & Technology Development Zone, as a result of the Company's investment in the Development Zone. Such government grant was initially recognised as "deferred income" and is amortised over the Company's remaining period of operation.

17 Loans and borrowings

In thousands of RMB	*At 31 December 2012*	*At 31 December 2011*
Denominated in:		
RMB	1,883,000	80,000
USD	19,566	-
	1,902,566	80,000
Non-current	1,632,000	-
Current	270,566	80,000
	1,902,566	80,000

Current loans and borrowings represented unsecured bank loans with maturity period within one year.

17 Loans and borrowings (continued)

On 23 July 2012, the Company entered into a consortium financing arrangement with a group of banks. Under the arrangement, the Company can draw down loans in either RMB or USD, up to an aggregate maximum principal amount of RMB 3 billion. The RMB loan bears the 5-year interest rate quoted by the People's Bank of China from time to time and USD loan bears interest rate of LIBOR+4.8% per annum. The repayment schedule of loans is based on the instalments schedule as set out in the agreement in within 10 years from the first draw down date. The agreement was secured by the company's land use right and construction in progress and guaranteed by Wuhu Chery and Changshu Port Development and Construction Co., Ltd. As at 31 December 2012, the Company had drawn down RMB loans of RMB 1,632 million with the interest rate of 6.55%.

The loans are repayable within 10 years from 23 July 2012. The first repayment date is set as 36 months after the first draw down date (27 July 2012). On 27 July 2015 and every 6 months after the preceding repayment date, the Company should repay by instalment based on the following schedule:

	Repayment of loan principal as a % of the outstanding Loan balance on 23 July 2015
27 July 2015	1.667%
27 January 2016	1.667%
27 July 2016	1.667%
27 January 2017	6.667%
27 July 2017	6.667%
Remaining	81.665%

18 Other payables

In thousands of RMB		*2012*	*2011*
Other payables to related parties	22(c)	3,550	-
Other payables for			
- Research and development activities		223,311	275,034
- property, plant and equipment		143,414	34,569
- services		52,735	8,052
Accrued payroll		57,727	20,702
Others		15,984	9,945
		496,721	348,302

All the balances are repayable on demand.

19 Financial instruments

(a) Financial risk management

Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

(b) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors is responsible for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyse monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Board of Directors undertakes both regular and ad hoc reviews of risk management controls and procedures.

19 Financial instruments (continued)

(b) Risk management framework (continued)

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from counterparties and the Company's deposits with banks.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The Company limits its exposure to credit risk by investing only in liquid investment products issued by financial institutions. Management actively monitors credit ratings and given that the Company only has invested in investment products with high credit ratings, management does not expect any counterparty to fail to meet its obligations.

The carrying amounts of cash and cash equivalents, pledged deposits and other receivables represent its maximum credit exposure on these assets.

19 Financial instruments (continued)

(b) Risk management framework (continued)

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company monitors cash flow requirements and optimises its cash return on investments. Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the remaining contractual maturities at the end of the reporting period of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Contractual undiscounted cash flow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at balance sheet date
As at 31 December 2012						
Other payables	496,721	-	-	-	496,721	496,721
Loans and borrowings	393,924	106,896	831,510	1,149,499	2,481,829	1,902,566
Finance lease liabilities	5,350	-	-	-	5,350	5,350
Total	895,995	106,896	831,510	1,149,499	2,983,900	2,404,637

	Contractual undiscounted cash flow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at balance sheet date
As at 31 December 2011						
Other payables	348,302	-	-	-	348,302	348,302
Loans and borrowings	85,510	-	-	-	85,510	80,000
Finance lease liabilities	5,490	5,350	-	-	10,840	10,840
Total	439,302	5,350	-	-	444,652	439,142

19 Financial instruments (continued)

(b) Risk management framework (continued)

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

- Currency risk

The Company is exposed to currency risk on purchases relating to research and development activities that are denominated in currencies other than the functional currency of the Company, RMB. The currencies in which these transactions primarily are denominated are US dollars and Euro.

In respect of monetary assets and liabilities denominated in foreign currencies, the Company's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Given the balances of monetary assets and liabilities denominated in foreign currencies are not material as at 31 December 2012 and 2011, it is not meaningful to disclose the Company's exposure to currency risk.

- Interest rate risk

Profile

The Company's interest rate risk arises primarily from bank deposits and bank loans. The Company's policy is to obtain the most favourable interest rates available in respect of its bank deposits. The Company has not used any derivatives to mitigate its interest rate risk exposure.

Bank deposits are with fixed interest rates ranging from 0.35%~3.25% and 0.44%~3.50% per annum as at 31 December 2012 and 2011, respectively.

19 Financial instruments (continued)

(b) Risk management framework (continued)

(iii) Market risk (continued)

The Company's interest-bearing borrowings and interest rates as at 31 December 2012 and 2011 are set out as follows:

		At 31 December	
	Interest rate	2012	2011
Fixed rate borrowings	3.52%-6.89%	1,902,566	80,000

Sensitivity analysis

The Company does not account for any fixed rate borrowings at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(c) Fair value

All financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2011 and 2012, except for the amounts due from/to related parties which have no fixed repayment term. Given these terms, it is not meaningful to disclose the fair value of such balances.

(d) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of paid in capital and retained earnings.

There were no changes in the Company's approach to capital management during the year.

20 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

In thousands of RMB	*2012*	*2011*
Within 1 year	38,916	17,735
After 1 year but within 5 years	55,059	341
	93,975	18,076

21 Capital commitments

Capital commitments outstanding not provided for in the financial statements:

In thousands of RMB	*2012*	*2011*
Contracted for	1,051,801	1,710,817
Authorised but not contracted for*	362,269	582,336
	1,414,070	2,293,153

* The authorised but not contracted for capital commitment represented the research and development costs and construction costs for the factories in Changshu to be incurred. The Board of Directors has approved these commitments but the related written approval document is still under preparation.

22 Related parties

(a) Parent and ultimate controlling party

As at 31 December 2012 and 2011, the Company was jointly-controlled by Wuhu Chery and Quantum (2007) LLC. Chery Automobile Co., Ltd. ("Chery Auto") is the ultimate parent company of Wuhu Chery and Israel Corporation Ltd. is the ultimate parent company of Quantum (2007) LLC.

The following is a summary of principal related parties transactions carried out by the Company with the related parties for the year presented.

(b) Transactions with key management personnel

In thousands of RMB	*2012*	*2011*
Salaries, benefit and contribution to the defined contribution retirement plan	10,607	12,567

22 Related parties (continued)

(c) Other related party transactions

The Company entered into the following material related party transactions:

In thousands of RMB	*2012*	*2011*
Rental expenses paid to Chery Auto's subsidiary	62	77
Service fee paid to a joint venture invested by Chery Auto	17,490	6,790
Service fee paid to Chery Auto	3,385	-
Purchase from Chery Auto	3,436	1,559
Travel expense paid on behalf of Chery and Shanghai SICAR Vehicle Technology Development Co., Ltd. ("SICAR")	334	-
Other expense charged to Israel Corporation Ltd.	1,039	752

The outstanding balances arising from the above transactions at the end of the reporting periods are as follows:

In thousands of RMB	*2012*	*2011*
Amounts due from related parties		
- prepayments to a joint venture invested by Chery Auto	-	1,559
- other receivables from Chery Auto's subsidiary	5	5
- other receivables from Israel Corporation Ltd.	1,791	752
	1,796	2,316

In thousands of RMB	*2012*	*2011*
Amounts due to related parties		
- other payables to Chery Auto	3,507	-
- other payables to Chery Auto's subsidiary	24	-
- other payables to a joint venture invested by Chery Auto	19	-
	3,550	-

22 Related parties (continued)

(d) Relationship with the related parties under the transactions stated in 22(c) above

Name of the entities	Relationship with the Company
Wuhu Chery Car Rental Co., Ltd	Chery Auto's subsidiary
Atech Automobile (Wuhu) Co., Ltd	Joint venture invested by Chery Auto
SICAR	Joint venture invested by Chery Auto
Futuris Automotive Interior Systems Co., Ltd	Joint venture invested by Chery Auto