# Israel Corporation Ltd.

# Condensed Consolidated Interim Financial Statements

# As at March 31, 2018

**(UNAUDITED)**

**Contents**

# Israel Corporation Ltd.

## Report of the Corporation's Board of Directors

### For the Three Months Ended March 31, 2018

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

The Corporation operates through two main investee companies: Israel Chemicals Ltd. (hereinafter – "ICL") and Oil Refineries Ltd. (hereinafter – "ORL"). The Corporation is involved in management of the Group companies through directors serving on the Boards of Directors of the Corporation's investee companies.

**This Directors' Report is submitted as part of the interim financial statements for the period ended March 31, 2018 (hereinafter – "the Interim Consolidated Financial Statements"). The report was prepared in accordance with the Securities Law (Periodic and Immediate Reports), 1970, and on the assumption that the reader is also in possession of the interim financial statements for the period ended March 31, 2017, and the Periodic Report for 2017.**

**Various Events in the Corporation in the Year of the Report and Thereafter**

1. On January 2, 2018, Kenon repaid the full amount of the loan (principal and interest) granted to it by the Corporation, and accordingly the amount of about $240 million was received by the Corporation. For additional details – see Note 11 to the annual consolidated financial statements for 2017.

2. In January 2018, a request was filed for certification of a derivative claim in the name of Oil Refineries Ltd. (ORL) against, among others, the Corporation. The subject matter of the request is transactions for acquisition of gas of the Group companies, including the intercompany aspects thereof. For additional details – see Note 6A(7) to the Interim Consolidated Financial Statements.

3. Regarding a derivative claim, the subject matter of which is bonuses received by officers (former and present) of the Corporation from the controlling shareholders in respect of completion of the Transaction, on March 18, 2018, a decision was issued by the District Court approving the compromise agreement for ending the proceeding. For additional details – see Notes 5A(7) and 6A(5) to the Interim Consolidated Financial Statements.

4. On March 19, 2018, the General Meetings of the holders of the debentures (Series 10 and 11) (hereinafter – "the Debentures") approved for each series separately, an amendment to the trust indentures (hereinafter – "the Amendment") with reference to certain conditions for distribution of dividends. As part of the Amendment, the interest rates for each series was updated by 0.2% on the unpaid principal as at the date of entry of the Amendment into effect and up to full repayment of the outstanding balance of the Debentures, and a one-time commission will be paid, at the rate of 0.25% of the par value of the outstanding balance of the Debentures as at the date of entry of the Amendment into effect. For additional details – see Note 5A(3) to the Interim Consolidated Financial Statements.

5. On March 22, 2018, the Corporation's Board of Directors decided to distribute a dividend in the amount of $120 million – about $15.74 per share. The dividend was distributed on April 23, 2018. The Corporation was in compliance with the conditions with reference to the holders of Debentures, which are provided as part of the trust indentures in connection with distribution of dividends, as stated.

**Various Events in the Corporation in the Year of the Report and Thereafter (Cont.)**

6. On March 29, 2018, the Corporation completed, as part of a shelf offer prospectus, issuance of two new series of registered debentures of NIS 1 par value each: Series 12, in unlinked shekels, having an aggregate par value of about NIS 554 million, and Series 13, linked to the U.S. dollar, having an aggregate par value of about NIS 287 million. The proceeds of the issuance, net of the issuance costs, amounted to about NIS 834 million (about US$238 million). The debentures were registered for trading on the Tel-Aviv Stock Exchange. On March 27, 2018, Standards & Poor's Maalot (hereinafter – "S&P") gave notice of provision of a rating of ilA to the above-mentioned debentures. On the date of the issuance, the Corporation was rated ilA/Stable. For additional details – see Note 5A(1) to the Interim Consolidated Financial Statements.

7. For details regarding the Corporation's liabilities – see the Immediate Report regarding the total liabilities based on repayment date that was published on March 24, 2018 (Reference No. 2018-01-042570). The information included therein is presented in this Report by means of references.

For additional information in connection with claims filed against the Corporation – see Note 20B(1) to the annual consolidated financial statements and 6A to the Interim Consolidated Financial Statements .

## FINANCIAL POSITION AND RESULTS OF OPERATIONS

– The total sales for the three-month period ended March 31, 2018 amounted to about $1,404 million, compared with about $1,295 million in the corresponding period last year.

– The total net income attributable to the owners of the Corporation for the three-month period ended March 31, 2018 amounted to about $432 million, compared with net income about $7 million in the corresponding period last year. The income in the period of the report includes the Corporation's share in a net capital gain, in the amount of $394 million, recorded by ICL, due to completion of the transaction for sale of the Fire Safety and Oil Additives businesses during the period.

– The total assets, as at March 31, 2018, amounted to about $11,294 million, compared with about $10,518 million, as at March 31, 2017, and compared with about $10,395 million, as at December 31, 2017.

– The current assets net of current liabilities, as at March 31, 2018 amounted to about $1,732 million, compared with about $920 million as at March 31, 2017, and compared with about $1,062 million, as at December 31, 2017.

– The balance of the non-current assets, as at March 31, 2018 amounted to about $6,969 million, compared with about $7,004 million as at March 31, 2017, and compared with about $6,851 million, as at December 31, 2017.

– The non-current liabilities, as at March 31, 2018, amounted to about $5,215 million, compared with about $5,626 million, as at March 31, 2017, and compared with about $5,276 million, as at December 31, 2017.

– The total equity as at March 31, 2018 amounted to about $3,486 million and the total equity attributable to the owners of the Corporation amounted to about $1,355 million, compared with equity of $2,298 million and total equity attributable to the owners of the Corporation of $826 million as at March 31, 2017, and compared with total equity of about $2,637 and total equity attributable to the owners of the Corporation of about $1,013 million as at December 31, 2017.

**FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)**

**Set forth below are the results of the Group companies in the period January–March 2018:**

– ICL finished the period of the report with income of about $928 million, compared with income of about $68 million in the corresponding period last year. The income in the period of the report includes a net capital gain, in the amount of $829 million, due to completion of the transaction for sale of the Fire Safety and Oil Additives businesses during the period.

– ORL finished the period of the report with income of about $74 million, compared with income of about $19 million in the corresponding period last year.

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

| | Three months ended March 31 | |
|---|---|---|
| | **2018** | **2017** |
| | $ Millions | |
| **Composition of the Corporation's results attributable to the owners:** | | |
| ICL | **441** | 33 |
| ORL (1) | **25** | 8 |
| Amortization of excess cost | **(3)** | (4) |
| Financing, administrative, general and other expenses of the Corporation's headquarters | **(27)** | (23) |
| Loss from re-measurement to fair value of collar options (2) | **(5)** | (6) |
| Tax benefit (taxes on income) of the Corporation's headquarters | **1** | (1) |
| | **432** | 7 |

(1) ORL has made early adoption of IFRS 16. Israel Corporation has not made early adoption of IFRS 16 and it makes adjustments to ORL's financial statements. Application of IFRS 16 would not have had a significant impact in the period of the report on the Corporation's net income. For additional details – see Note 3 to the condensed consolidated interim financial statements.

(2) Further to that stated in Note 16.E.1(e) to the annual consolidated financial statements, the changes stem from re-measurement of the options based on their fair value in connection with the financial transaction in ICL shares (hereinafter – "the Collar Options"), including adjustment of the dividend component. The said changes are included in the "other income (expenses)" category in the statement of income.

* Regarding an analysis of the results of ICL and ORL – see the sections below.

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

As at March 31, 2018, the total financial liabilities of the Corporation and of the wholly owned and controlled headquarters companies (hereinafter – "the Headquarters Companies") amounted to about $1,908 million. The balance of the fair value of the options in the financial transaction (hereinafter – "the Collar Options") economically reduces the liabilities by about $38 million and the balance of the fair value of the currency and interest SWAP transactions, economically reduces the liabilities by about $31 million.

As at the date of the report, the investments of the Corporation and of the Headquarters Companies in liquid assets amounted to about $848 million, which are invested in short-term deposits in financial institutions, of which about $15 million thereof is deposited as collateral in favor of a loan.

The net financial liabilities of the Corporation and of the Headquarters Companies as at the date of the report was about $991 million, compared with net debt balances of about $1,246 million and about $1,348 million as at December 31, 2017 and as at March 31, 2017, respectively. As at the date of the report, the net financial liabilities of the headquarters companies standing alone amounted to about $142 million.

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

In September 2014, the Corporation entered into a financial transaction with financial entities, in connection with 36.2 million shares of ICL, which were loaned to the financial entities. As part of the transaction, the financial entities provided the Corporation with an initial amount of about $191 million, which is essentially a loan. Closing of the financial transaction is being executed in increments during a period of three years, commencing from the end of 2016. Accordingly, and subject to the terms of the financial transaction, during the quarter the Corporation chose not to receive return of the transaction shares and it was credited for their value against payment of the loans and the interest accrued (hereinafter – "the Physical Settlement"). For additional details – see Note 16.E.(1)(j) to the annual financial statements.

The balances of this loan, including accrued interest, as at March 31, 2018, March 31, 2017 and December 31, 2017, which is included in the Corporation's net debt, amounted to about $115 million, $179 million and about $128 million, respectively.

On January 2, 2018, Kenon repaid the full amount of the loan (the principal and interest) that was granted to it by the Corporation in the amount of about $240 million. For additional details – see Note 11 to the annual consolidated financial statements.

In the period of the report, the Corporation and the Headquarters Companies repaid liabilities in the amount of $360 million, of which payment of principal of the debentures (Series 7) (net of hedging transactions), in the amount of about $160 million, and early repayment of long-terms loans from bank, in the amount of $200 million. Subsequent to the date of the report, the Corporation made early repayment of additional loans, in the amount of $193.3 million, from a consortium of banks. For additional details – see Note 5.A.6 to the condensed consolidated interim financial statements.

On March 22, 2018, the Corporation's Board of Directors decided to distribute a dividend in the amount of $120 million. The dividend was distributed subsequent to the date of the report on April 23, 2018.

On March 29, 2018, the Corporation completed, as part of a shelf offer prospectus, issuance of two new series of debentures, in the aggregate amount of about NIS 841 million par value. The proceeds from the issuance, net of fund-raising costs, amounted to about US$238 million (value as at the issuance date). For additional details – see Note 5.A.1 to the condensed consolidated interim financial statements. As at the date of the report, the Corporation was in compliance with the financial covenants provided.

In addition, from time to time, the Corporation and the Headquarters Companies extend the repayment dates of long-term loans. As at the date of the report, the average duration of the balance of the loans and debentures of the Corporation and the Headquarters Companies is about 2.8 years.

During the period of the report, the Corporation and the Headquarters Companies received a dividend, net of tax, from ICL, in the amount of about $32 million, and the Corporation received a dividend, net of tax, from ORL, in the amount of about $21 million.

On November 23, 2017, S&P gave notice of confirmation of a rating of ilA/stable, with a stable rating outlook.

On March 13, 2018, S&P gave notice of confirmation of a rating in connection with the outstanding debentures (Series 7, 10 and 11) and provision of a rating of ilA for issuance of new series of debentures in the amount of up to NIS 400 million par value.

On March 27, 2018, S&P gave notice of a rating of ilA for issuance of new series of debentures in the amount of up to NIS 970 million par value.

**ISRAEL CHEMICALS LTD.**

| | 1–3/2018 | | 1–3/2017 | | 1–12/2017 | |
|---|---|---|---|---|---|---|
| | $ millions | % of sales | $ millions | % of sales | $ millions | % of sales |
| Sales | **1,404** | **–** | 1,295 | – | 5,418 | – |
| Gross profit | **431** | **31** | 358 | 28 | 1,672 | 31 |
| Operating income | **985** | **70** | 116 | 9 | 629 | 12 |
| Adjusted operating income* | **151** | **11** | 116 | 9 | 652 | 12 |
| Net income attributable to ICL's shareholders | **928** | **66** | 68 | 5 | 364 | 7 |
| Adjusted net income attributable to ICL's shareholders* | **106** | **8** | 68 | 5 | 389 | 7 |
| Adjusted EBITDA* (1) | **251** | **18** | 218 | 17 | 1,059 | 20 |
| Cash flows from operating activities | **36** | **–** | 195 | – | 847 | – |
| Cash flows used for acquisition of property, plant and equipment and other assets | **127** | **–** | 106 | – | 457 | – |

(1) Adjusted EBITDA for the period of activity:

Calculation of the adjusted EBITDA is made as follows:

| | 1–3/2018 | 1–3/2017 | 2017 |
|---|---|---|---|
| | | $ millions | |
| Net income attributable to ICL's shareholders | **928** | 68 | 364 |
| Depreciation and amortization | **97** | 94 | 390 |
| Financing expenses, net | **15** | 14 | 124 |
| Taxes on income | **45** | 42 | 158 |
| Adjustments* | **(834)** | – | 23 |
| **Total adjusted EBITDA** | **251** | 218 | 1,059 |

* See adjustments to the operating income and the reported net income below.

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

Adjustments to reported operating income and net income

| | 1–3/2018 | 1–3/2017 | 2017 |
|---|---|---|---|
| | | $ millions | |
| **Operating income** | **985** | 116 | 629 |
| Capital gain (1) | **(841)** | – | (54) |
| Write down and impairment of assets (2) | **–** | – | 32 |
| Provision for early retirement and dismissal of employees (3) | **7** | – | 20 |
| Provision for legal claims (4) | **–** | – | 25 |
| **Total adjustments to operating income** | **(834)** | – | 23 |
| **Total adjusted operating income** | **151** | 116 | 652 |
| **Net income attributable to the shareholders of ICL** | **928** | 68 | 364 |
| Total adjustments to operating income (loss) | **(834)** | – | 23 |
| Adjustments to financing expenses (5) | **–** | – | – |
| Total tax impact of the above operating income and financing expenses adjustments | **12** | – | (4) |
| Tax assessment and deferred tax adjustments (6) | **–** | – | 6 |
| **Total adjusted net income attributable to the shareholders of ICL** | **106** | 68 | 389 |

(1) Capital gain from sale of low-synergy businesses. In 2018, capital gain from the sale of the Oil Additives ($P_2S_5$) and Fire Safety businesses. In 2017, capital gain from IDE divestiture, additional consideration received regarding earn-out of 2015 divestitures and capital gain from deconsolidation of Allana Afar in Ethiopia.

(2) Impairment in value and write-down of assets relating to impairment of an intangible asset in Spain, write-down of an investment in Namibia and impairment of assets in China and the Netherlands.

(3) Provision for early retirement and dismissal of employees in accordance with ICL's comprehensive global efficiency plan in its production facilities throughout the group. In 2018, provisions relating to ICL's facilities in the United Kingdom. In 2017, provisions relating to ICL Rotem's facilities in Israel, and to subsidiaries in North America (Everris NA Inc.) and Europe (Everris International B.V and BK Giulini GmbH).

(4) Provision for legal claims following the judgement relating to a dispute with the National Company for Roads in Israel regarding damage caused to bridges by DSW, a decision of the European Commission concerning past grants received by a subsidiary in Spain, claims for damages related to the contamination of the water in certain wells at the Suria site in Spain, a provision in connection with prior periods in respect of royalties' arbitration in Israel, reversal of the provision for retroactive electricity charges in connection with prior periods and settlement of the dispute with Great Lakes (a subsidiary of Chemtura Corporation).

(5) Interest and linkage expenses related to a decision of the European Commission which was fully offset by income in connection with the resolution of the Appeals Court for Tax Matters in Belgium.

(6) An internal transaction in preparation of the low-synergy business divestitures, resulting in tax liabilities (see also capital gain from divestment of the Fire Safety and Oil Additives businesses above), and tax income relating to the resolution of the Appeals Court for Tax matters in Belgium.

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

ICL discloses in this Quarterly Report non-IFRS financial measures titled adjusted operating income, adjusted net income attributable to ICL's shareholders and adjusted EBITDA. ICL's management uses adjusted operating income, adjusted net income attributable to ICL's shareholders and adjusted EBITDA to facilitate operating performance comparisons from period to period. ICL calculates its adjusted operating income by adjusting the operating income to add certain items, as set forth in the reconciliation table above. Certain of these items may recur. ICL calculates its adjusted net income attributable to ICL's shareholders by adjusting the net income attributable to ICL's shareholders to add certain items, as set forth in the reconciliation table above, excluding the total tax impact of such adjustments and adjustments attributable to the non-controlling interests. ICL calculates its adjusted EBITDA by adding back to the net income attributable to ICL's shareholders the depreciation and amortization, financing expenses, net, taxes on income and the items presented in the reconciliation table above which were adjusted for in calculating the adjusted operating income and adjusted net income attributable to ICL's shareholders.

One should not view adjusted operating income, adjusted net income attributable to ICL's shareholders or adjusted EBITDA as a substitute for operating income or net income attributable to ICL's shareholders determined in accordance with IFRS, and one should note that ICL's definitions of adjusted operating income, adjusted net income attributable to ICL's shareholders and adjusted EBITDA may differ from those used by other companies. However, ICL believes adjusted operating income, adjusted net income attributable to ICL's shareholders and adjusted EBITDA provide useful information to both management and investors by excluding certain expenses that management believes are not indicative of our ongoing operations. ICL's management uses these non-IFRS measures to evaluate ICL's business strategies and management's performance. ICL believes that these non-IFRS measures provide useful information to investors because they improve the comparability of the financial results between periods and provide for greater transparency of key measures used to evaluate ICL's performance.

ICL presents a discussion in the period-to-period comparisons of the primary drivers of changes in ICL's results of operations. This discussion is based in part on management's best estimates of the impact of the main trends in its businesses. ICL has based the following discussion on its financial statements. One should read the following discussion together with ICL's financial statements.

## ISRAEL CHEMICALS LTD. (Cont.)

### Additional information regarding business lines

| | For the Three Months Ended March 31, 2018 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Essential Minerals Segment | | | | | Specialty Solutions Segment | | | | |
| | Potash and Magnesium | Phosphate Commodities | Specialty Fertilizers | Elimin-ations | Total segment | Industrial Products | Advanced Additives* | Food Specialties | Elimin-ations | Total segment |
| | In $ millions | | | | | | | | | |
| Sales | 353 | 265 | 221 | (25) | 814 | 317 | 177 | 167 | (2) | 659 |
| Business line's profit | 62 | 6 | 25 | (3) | 90 | 78 | 34 | 18 | 1 | 131 |
| Depreciation and amortization | 34 | 30 | 5 | – | 69 | 15 | 7 | 5 | – | 27 |
| Capital investments | 62 | 30 | 1 | – | 93 | 13 | 3 | 3 | – | 19 |

| | For the Three Months Ended March 31, 2017 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Essential Minerals Segment | | | | | Specialty Solutions Segment | | | | |
| | Potash and Magnesium | Phosphate Commodities | Specialty Fertilizers | Elimin-ations | Total segment | Industrial Products | Advanced Additives* | Food Specialties | Elimin-ations | Total segment |
| | In $ millions | | | | | | | | | |
| Sales | 283 | 292 | 192 | (33) | 734 | 310 | 169 | 138 | (4) | 613 |
| Business line's profit | 37 | 8 | 20 | 1 | 66 | 77 | 25 | 12 | 1 | 115 |
| Depreciation and amortization | 29 | 32 | 4 | – | 65 | 16 | 8 | 4 | – | 28 |
| Capital investments | 58 | 39 | 2 | – | 99 | 9 | 1 | 2 | – | 12 |

| | For the Year Ended December 31, 2017 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Essential Minerals Segment | | | | | Specialty Solutions Segment | | | | |
| | Potash and Magnesium | Phosphate Commodities | Specialty Fertilizers | Elimin-ations | Total segment | Industrial Products | Advanced Additives* | Food Specialties | Elimin-ations | Total segment |
| | In $ millions | | | | | | | | | |
| Sales | 1,383 | 1,052 | 692 | (119) | 3,008 | 1,193 | 877 | 596 | (16) | 2,650 |
| Business line's profit | 282 | 23 | 56 | (2) | 359 | 303 | 201 | 51 | (1) | 554 |
| Depreciation and amortization | 128 | 127 | 19 | – | 274 | 61 | 32 | 18 | – | 111 |
| Capital investments | 270 | 141 | 12 | – | 423 | 49 | 15 | 16 | – | 80 |

* The operating results presented herein include the results of ICL's Fire Safety and Oil Additives ($P_2S_5$) businesses which were sold during Q1 2018. For additional information see "Other Information", below.

** ICL does not attribute general and administrative expenses, finance expenses or tax expenses by segment or to individual business lines.

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

**Results of operations for the period January – March 2018**

**Sales**

| | $ millions | | |
|---|---|---|---|
| | **Sales** | **Expenses** | **Operating income** |
| **Q1 2017 figures** | **1,295** | **(1,179)** | **116** |
| Total adjustments Q1 2017 * | – | – | – |
| **Adjusted Q1 2017 figures** | **1,295** | **(1,179)** | **116** |
| Quantity | (54) | 63 | 9 |
| Price | 76 | – | 76 |
| Exchange rate | 87 | (100) | (13) |
| Raw materials | – | (17) | (17) |
| Energy | – | (7) | (7) |
| Transportation | – | (7) | (7) |
| Operating and other expenses | – | (6) | (6) |
| **Adjusted Q1 2018 figures** | **1,404** | **(1,253)** | **151** |
| Total adjustments Q1 2018 * | – | (834) | (834) |
| **Q1 2018 figures** | **1,404** | **(419)** | **985** |

* See "Adjustments to reported operating and net income" above.

Quantity – higher sales quantities of potash in ICL Potash & Magnesium, dairy proteins in ICL Food Specialties and specialty agriculture products in ICL Specialty Fertilizers were more than offset by lower sales quantities of clear brine fluids in ICL Industrial Products and phosphate fertilizers and phosphoric acid in ICL Phosphate Commodities. However, improved mix, mainly due to increased share of sales from higher-margin sites at ICL Potash, resulted in a positive contribution to the operating income.

Price – the increase derives mainly from an increase in the selling prices of potash in ICL Essential Minerals (an increase of $28 in the average FOB price per ton compared to the corresponding quarter last year), as well as bromine-based industrial products and specialty phosphates (acids and food phosphates) in ICL Specialty Solutions.

Exchange rate – the negative impact on the operating income derives mainly from the upward revaluation of the shekel and the euro against the dollar increasing production costs, partly offset by the upward revaluation of the euro against the dollar which increased revenue.

Raw materials – the negative impact on the operating income derives mainly from an increase in sulphur prices (used for production in ICL Phosphate Commodities and ICL Advanced Additives) and an increase in commodity fertilizers prices (used for products of ICL Specialty Fertilizers).

Energy – the negative impact derives mainly from an increase in electricity prices, together with higher gas and water costs.

Transportation – The negative impact derives mainly from an increase in marine transportation prices and an increase in potash quantities sold, partly offset by a decrease in the quantities of ICL Phosphate Commodities' products sold.

Operating and other expenses – the negative impact derives mainly from insurance income in Israel, recorded in the corresponding quarter last year.

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

**Results of operations for the period January – March 2018**

The following table presents the sales in accordance with geographic areas based on the location of the customers:

| | 1–3/2018 | | 1–3/2017 | |
|---|---|---|---|---|
| | $ millions | % | $ millions | % |
| Europe | **583** | **42** | 534 | 41 |
| Asia | **334** | **24** | 282 | 22 |
| North America | **267** | **19** | 294 | 23 |
| South America | **119** | **8** | 98 | 8 |
| Rest of the world | **101** | **7** | 87 | 6 |
| **Total** | **1,404** | **100** | 1,295 | 100 |

Europe – the increase derives mainly from an increase in the selling prices of potash, quantities sold of specialty agriculture products and the positive impact of the upward revaluation of the euro against the dollar.

Asia – the increase derives mainly from an increase in the selling prices and quantities sold of potash, quantities sold of specialty agriculture products, together with an increase in the selling prices of bromine-based industrial products. The increase was partly offset by a decline in phosphate fertilizers quantities sold.

North America – the decrease derives mainly from a decline in clear brine fluids and potash quantities sold.

South America – the increase derives mainly from an increase in potash selling prices and quantities sold.

Rest of the world – the increase derives mainly from an increase in the quantities of dairy protein products sold, which was partly offset by a decrease in potash quantities sold in Israel.

**Financing expenses, net**

The net reported financing expenses in the first quarter of 2018 amounted to $15 million, compared with net financing expenses of $14 million in the corresponding quarter last year. The financing expenses compared with the corresponding quarter last year were impacted mainly by an increase, in the amount of $4 million, in respect of the change in the fair value of foreign-currency hedging transactions. This increase was mostly offset by a decrease in the interest expenses in respect of provisions for employee benefits.

**Tax expenses**

The tax expenses in the first quarter of 2018 amounted to $45 million, reflecting an adjusted effective tax rate of about 24%. ICL's tax rate in Q1 2018 was impacted mainly by a decrease in tax rate following the tax reform in the US at the end of 2017 and the devaluation of the shekel against the dollar during the quarter.

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

**Main developments and the business environment in ICL:**

**Specialty Solutions**

Industrial Products

- During the first quarter of 2018, elemental bromine prices in China softened slightly and gradually compared to the previous quarter due to increased production in China, as the seasonal winter production shutdown ended and lower environmental-related regulation pressure on bromine producers.

- Stable to moderately growing demand for bromine-based flame retardants. Sales were higher compared to Q1 2017, mainly as a result of higher prices.

- Phosphorous-based flame retardants revenues increased as higher selling prices and favorable foreign exchange rate more than offset lower volumes due to a shortage of other raw materials used in the production of the final products of ICL's customers.

- 1-year agreements were secured with strategic customers of bromine and bromine derivatives with higher prices and volumes.

- Sales in Q1 2018 of clear brine fluids decreased compared to Q1 2017 as a major customer of ICL Industrial Products lost market share in this area.

- Higher profitability for magnesia products as a result of higher selling prices and a focus on higher margin applications.

- Higher sales of solid $MgCl_2$ for deicing due to the weather conditions on the east coast of the US during the first quarter of 2018.

- ICL expects Q2 2018 to continue the trend and maintain the high profitability levels achieved.[1]

[1] The estimates regarding future trends in this paragraph constitute "forward-looking" information, and they are based on, among other things, estimates of ICL's management based on its familiarity with the situation in the markets and on current price quotes. The actual level pf the profitability may change due to, among other things, changes in the business environment in which ICL operates, the levels of supply and demand, product prices, transportation and energy prices and the business situation of the customers, and they may be impacted by changes in regulation and actions taken by governments, manufacturers and consumers. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

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

**Main developments and the business environment in ICL: (Cont.)**

**Specialty Solutions (Cont.)**

Advanced Additives

Total Advanced Additives sales exceeded the corresponding quarter last year and were supported by several factors:

– Global sales of salts and acids increased by about 10% compared to the corresponding quarter last year.

  – The business line's performance was favorably impacted by demand from new acid and salt customers together with higher volumes to the oral care and chemical processing industries in Europe. This compensated for the lower sales to the existing customer base as a result of the roll out of the value-oriented pricing approach.

  – Continued growth of the $P_2O_5$ business in China was driven by YPH Joint Venture's increased local market share for acids. Salt sales remained at previous year's level.

  – Acid and salt revenues in North America were stable at the level of the corresponding quarter last year. The South American market continued its good performance exceeding the corresponding quarter last year by about 25% as a result of an increase in acids exports from Brazil to other South American countries and higher market prices.

  – The market demand for acids and salts in the first quarter was stable globally and is expected to remain on a similar level for all of 2018.[2]

  – The Paints and Coatings sub-business line experienced strong performance globally during Q1 2018 and sales increased by approximately 25% compared to the corresponding quarter last year. This was driven mainly by increased volumes and improved average prices, especially of stabilizers and organic products.

  – Average prices in the business line increased for the third consecutive quarter as a result of the new value-oriented pricing approach.

– The Oil Additives ($P_2S_5$) and Fire Safety businesses were divested at the end of the first quarter of 2018. As a result, ICL recognized a capital gain of $841million (see also "Other Information"). The aggregate sales and operating income of these businesses in the first quarter of 2018 were slightly below the first quarter of 2017.

[2] The estimates regarding the demand for acids and salts constitute "forward-looking" information, and they are based on, among other things, estimates of ICL's management based on its familiarity with the situation in the markets and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, changes in the levels of supply and demand, new products and new suppliers. There is also a possible impact from changes in regulation and actions taken by governments, manufacturers and consumers.

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

**Main developments and the business environment in ICL: (Cont.)**

**<u>Specialty Solutions</u> (Cont.)**

Food Specialties

– ICL Food Specialties' revenue in the first quarter of 2018 was significantly higher versus the first quarter of 2017. Recovered volumes in the dairy protein business in the infant food market were the main driver for this increase.

– The strong recovery in the dairy protein business during the quarter was especially driven by improved demand in the Chinese market. Since the second half of 2017 the dairy protein business has successfully diversified its customer base, and is continuing to focus on developing organic dairy solutions for the infant food industry.

– ICL Food Specialties' food phosphates and multi-ingredient blends business experienced some upward pressure on costs of certain raw materials during the quarter. The business line adjusted its selling prices accordingly and put into place a new global value-oriented pricing approach. Sales in North America were below the corresponding quarter last year driven by competitive pressure in the bakery market. In Europe, although the business line was still negatively impacted in Q1 2018 by the transition to a new distributor in Russia, it expects a stronger ramp-up of distribution in the remaining quarters of the year.[3]

[3] The estimates regarding the increase in distribution of ICL's products during the remaining quarters of the year in this paragraph constitute "forward-looking" information, and they are based on, among other things, estimates of ICL's management based on its familiarity with the situation in the markets and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to changes in the levels of supply, product prices, transportation costs, the business situation of the customers, changes in distributors, and new products, and they may be impacted by changes in regulation and actions taken by governments, manufacturers and consumers.

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

**Main developments and the business environment in ICL: (Cont.)**

**Specialty Solutions (Cont.)**

**Results of operations for the period January – March 2018 (millions of dollars)**

| | Industrial Products | Advanced Additives* | Food Specialties | Eliminations | Total |
|---|---|---|---|---|---|
| **Total sales in Q1 2017** | **310** | **169** | **138** | **(4)** | **613** |
| Quantity | (17) | (8) | 13 | 2 | (10) |
| Price | 15 | 7 | 3 | – | 25 |
| Exchange rate | 9 | 9 | 13 | – | 31 |
| **Total sales in Q1 2018** | **317** | **177** | **167** | **(2)** | **659** |

* The operating results presented herein include the results of ICL's fire safety and oil additives ($P_2S_5$) businesses which were sold at the end of Q1 2018. For additional information see "Other Information".

Quantity – the decrease derives mainly from a decrease of clear brine fluids' quantities sold in ICL Industrial Products due to a major customer's loss of market share, a decrease in quantities sold in the Oil Additives ($P_2S_5$) sub-business line of ICL Advanced Additives together with a decrease in the quantities of food phosphates and multi-ingredient blends in ICL Food Specialties. This decrease was partly offset by an increase in dairy protein quantities sold in ICL Food Specialties, mainly due to higher demand in the Chinese market.

Price – the increase derives mainly from an increase in the selling prices of bromine-based industrial products and flame retardants in ICL Industrial Products, acids in ICL Advanced Additives and food phosphates and multi-ingredient blends in ICL Food Specialties.

Exchange rate – the increase derives mainly from the upward revaluation of the euro against the dollar compared to the corresponding quarter last year.

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

**Main developments and the business environment in ICL: (Cont.)**

**Specialty Solutions (Cont.)**

**Analysis of operating income**

| | $ millions |
|---|---|
| **Total operating income – 1st quarter 2017** | **115** |
| Quantity | (9) |
| Price | 25 |
| Exchange rate | 2 |
| Raw materials | (5) |
| Energy | (1) |
| Transportation | – |
| Operating expenses and other income (expenses) | 4 |
| **Total operating income – 1st quarter 2018** | **131** |

Quantity – the decrease derives mainly from a decrease of clear brine fluids' quantities sold in ICL Industrial Products due to a major customer's loss of market share, partly offset by an increase in dairy protein quantities sold in ICL Food Specialties, mainly due to higher demand in the Chinese market.

Price – the increase derives mainly from an increase in the selling prices of bromine-based industrial products and flame retardants in ICL Industrial Products, acids in ICL Advanced Additives and food phosphates and multi-ingredient blends in ICL Food Specialties.

Exchange rate – the increase derives mainly from the upward revaluation of the euro against the dollar increasing revenues. This increase was partly offset by the upward revaluation of the euro and the shekel against the dollar increasing production costs.

Raw materials – the decrease derives mainly from an increase in cleaner green phosphoric acid (4D) prices which is used for white phosphoric acid production in ICL Advanced Additives, mainly as a result of higher sulphur prices.

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

**Main developments and the business environment in ICL: (Cont.)**

**Essential Minerals**

**Review of the business environment**

- Although some recovery in crop commodity prices was seen during the first quarter of this year, prices are still around ten-year low level. A recent report by the USDA (United States Department of Agriculture) reduced the expected yield for wheat, which caused prices to increase. The President Trump/China "Fair Trade" affair has caused concern among America's farmers, that the threat by China to impose a 25% tariff on soybean imports will limit export to the country.

- Based on the WASDE report published by the USDA in April 2018, the grain stock to use ratio for 2017/2018 agricultural year is expected to decrease slightly to 24.9%, compared with 25.5% at the end of the 2016/2017 agricultural year, and compared with 25.8% in the 2015/2016 agricultural year.[4]

- According to the forecast of the FAO (Food and Agriculture Organization of the UN) from April 2018, early indications point to smaller wheat and coarse grain crops in 2018, due to less favorable weather conditions, low wheat prices and a shift away from corn to soybeans.

- A major pillar in the Company's strategy is to grow the semi-specialty business, including the following products: Polysulphate, Potash Plus, PKpluS and others. During the first quarter of 2018, Potash Plus was produced for samples and trials toward a commercial launch in the second half of 2018. In the first quarter of 2018, total sales of the semi-specialty products were $28 million, including blended fertilizers in different compositions which are also enhanced with Polysulphate.

Potash and Magnesium

- Potash prices continued to firm during the first quarter of 2018, supported by healthy demand. According to CRU (Fertilizer Week Historical Prices, April 5, 2018), the average CFR Brazil price (all supply sources) for the first quarter was $293 per ton, $13 per ton and $48 per ton (20%) higher than in the fourth and the first quarter of 2017, respectively.

- There has been very little activity towards 2018 contract settlements in India and China. The government of India has announced that the subsidy allocation for potash will decrease by around 10% in 2018/2019, reflecting a $12 per ton decrease.

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[4] The estimates regarding future trends in this paragraph constitute "forward-looking" information, and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, fluctuations in the world agricultural markets, particularly in the target markets for ICL's products, including, among other things, changes in the levels of supply and demand, changes in the weather, prices of products, commodities and grains, prices of inputs, transportation and energy costs, and may be impacted by actions taken by governments, manufacturers and consumers.

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

**Main developments and the business environment in ICL: (Cont.)**

**Essential Minerals (Cont.)**

**Review of the business environment (Cont.)**

Potash and Magnesium (Cont.)

– Market observers estimate a $55-60 per ton difference between Chinese importers and the price proposed by suppliers for the 2018 contract price. According to recent media reports, BPC (Belarussian Potash Company) expects an increase of more than $20 per ton in the 2018 contract price compared to the 2017 price.[5]

– According to customs data, China imported about 2.74 million tons of potash during the first quarter of 2018, about a 4.4% decrease compared to the corresponding quarter last year.

– According to the FAI (Fertilizer Association of India), potash imports during the first quarter of 2018 amounted to 1.23 million tons, a 50% increase compared to the imports in the corresponding quarter last year.

– Demand for potash in Brazil continues to be strong. According to ANDA (Brazilian National Fertilizer Association), potash imports into Brazil in the first quarter of 2018 amounted to 1.69 million tonnes, a 1.3% increase compared to the imports in the corresponding quarter last year.

– Following the launch of its Bethune mine in Canada, K+S is planning to shut down its Sigmundshall mine at the end of this year, removing 500 thousand tons of capacity. In Russia, following significant delays, EuroChem launched its Usolskiy potash mine in March 2018. The second mine (VolgaKaliy) is not scheduled to start until the end of this year. EuroChem recently announced that it expects to produce 640 thousand tons of potash in 2018. A new potash mine was inaugurated in Turkmenistan, with a nameplate capacity of 1.4 million tons per year. No product from this mine has yet been seen on the international market, but some material was said to be exported to neighboring countries in the region.[6]

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[5] The estimates regarding the price that will be determined per ton of potash in the contracts for 2018 constitute "forward-looking" information, and there is no certainty that they will be realized. These estimates may change due to, among other things, fluctuations in the world agricultural markets, particularly in the target markets for ICL's products, including, among other things, changes in the levels of supply and demand, changes in the weather, prices of products, commodities and grains, prices of inputs, transportation and energy costs, and may be impacted by actions taken by governments, manufacturers and consumers, and the levels of inventory held by customers. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

[6] The estimates regarding future trends in this paragraph constitute "forward-looking" information, and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, changes in the start dates and/or closing of mines as a result of operating and/or engineering difficulties, as well as possible impacts in the business environment as a result of fluctuations in the world agricultural markets, changes in the levels of supply and demand, prices of products, commodities and grains, prices of inputs, transportation and energy costs, and may be impacted by actions taken by governments, manufacturers and consumers. There is also a possible impact on the annual production capacity as a result of the material mined.

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

**Main developments and the business environment in ICL: (Cont.)**

**Essential Minerals (Cont.)**

**Review of the business environment (Cont.)**

Potash and Magnesium (Cont.)

– ICL is continuing the optimization of its European mineral assets: ICL Iberia has met its production targets in the first quarter and continues to implement an efficiency plan that is resulting in a lower cost per ton, while progressing with construction of the new access tunnel to the mine in the Suria site. ICL UK is progressing with the transition to Polysulphate in the second half of 2018 and the labor reduction process.

– Metal magnesium – rising raw material and production costs in China have increased prices in this market. However, prices remain 25–30% below regulated markets (price-protected markets). The influence of Chinese prices, combined with lower priced imports from Russia, Kazakhstan and Turkey, have caused a steady price decline in ICL Magnesium's key markets, which has contributed to lower operating results.

– A positive impact on demand is expected following the restart of 300,000 – 400,000 tons per year of US primary aluminum capacity as announced by Alcoa, Century Aluminum and Magnitude 7. Additionally, GF Linamar, Spartan Lightweight Metals and Shiloh Industries have announced capacity increases in the US, improving the prospects for alloy sales in this premium market. The President Trump/China "Fair Trade" affair could serve to continue this trend.[7]

[7] The estimates regarding increase in the production and the impact on the price of metal magnesium in this paragraph constitute "forward-looking" information, and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, changes in the business environment, prices of the products sold, actions taken by governments, changes in the trade relations between the United States and China, changes in quotas, changes in the expected demand, operating, logistic and engineering difficulties, economic feasibility with respect to sale of the products and exchange rates.

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

**Main developments and the business environment in ICL: (Cont.)**

**Essential Minerals (Cont.)**

**Review of the business environment (Cont.)**

Phosphate – Commodity Products

– The phosphate market continued to firm moderately during the first quarter of 2018, however, prices seem to have stabilized towards the end of March. Some minor decline has been evident in the western hemisphere, with producers trying to place volumes in South America. In the eastern hemisphere, stability is projected to persist with the emergence of demand in India.[8]

– At the end of the first quarter of 2018, the fertilizing season began in Europe, while in China the season is over and the accumulation of stocks has begun towards the renewal of the season in September.

– Sulphur prices moderated during the first quarter of 2018 and reached $135 per ton CFR China at the end of the quarter, compared with a peak level of over $200 per ton during the second half of 2017.

– Major capacity increases are still on the way in Morocco and Saudi Arabia. The Moroccan producer, OCP, is in the process of commissioning its fourth one million ton per year finished product phosphate plant in Jorf Lasfar. The Saudi Arabian producer Ma'aden, is in the process of ramping-up its Wa'ad Al Shamal facility with a finished product capacity of 3 million tons per year.

– Export of phosphate fertilizers (DAP, MAP and TSP) from China decreased by 14% during the first quarter of 2018 compared to the corresponding quarter last year, to 1.21 million tons, as producers margins were under pressure by stricter environmental regulations and competition from Saudi Arabia.

– Phosphate fertilizers imports to Brazil (DAP, MAP, TSP, SSP) during the first quarter of 2018 decreased by 18.4% compared to the corresponding quarter last year, to 729 thousand tons.

– In India, the high price of phosphoric acid tilted the scale in favor of importing DAP over producing it from imported acid. According to the FAI (Fertilizerdia Association of India), DAP imports during the first quarter of 2018 more than doubled to 418 thousand tons compared to the corresponding quarter last year. On the other hand, domestic DAP production, using imported rock and acid, decreased by 16.7% compared to the corresponding quarter last year, to 962 thousand tons.

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[8] The estimates regarding future trends in this paragraph constitute "forward-looking" information, and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, fluctuations in the world agricultural markets, particularly the target markets for ICL's products, including, among other things, changes in the levels of supply and demand, prices of the products, commodities and grains, input prices, changes in government subsidies to farmers, transportation and energy prices, and they may be impacted by actions taken by governments, manufacturers and consumers. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

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

**Main developments and the business environment in ICL: (Cont.)**

**Essential Minerals (Cont.)**

**Review of the business environment (Cont.)**

Phosphate – Commodity Products (Cont.)

– Demand in the US was firm. According to TFI (The Fertilizer Institute) data, DAP imports in the first two months of 2018 increased by 4.2% compared to the corresponding period last year, to 227 thousand tons. MAP imports more than doubled compared to the corresponding period last year, reaching 384 thousand tons.

– The average price of DAP in the first quarter of 2018 was $423 per ton FOB Morocco, a $33 increase compared to the fourth quarter of 2017 and $51 (14%) increase compared to the first quarter last year (according to CRU – Fertilizer Week Historical Prices, April 5, 2018).

– The average price of phosphate rock (68-72% BPL) in the first quarter of 2018 was $84 per ton FOB Morocco, a $4 per ton increase compared to the fourth quarter of 2017, but a $12 per ton (9%) decrease compared to the first quarter of 2017 (according to CRU - Fertilizer Week Historical Prices, April 5, 2018). No significant change in the business environment of the phosphate rock market is expected.[9]

– The Moroccan producer OCP has settled second-quarter phosphoric acid contracts with its Indian joint venture partners at $730 per ton $P_2O_5$ CFR, an increase of $52 per ton $P_2O_5$ CFR compared to the first quarter of 2018. This is following an increase of $111 per ton in the first quarter of 2018. With this recent increase, green phosphoric acid prices have reached their highest level since December 2015.

– Market observers are forecasting stability in global prices as higher supply from Morocco and Saudi Arabia are projected to be offset by lower exports from China and higher imports by India.[10]

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[9] The estimates regarding future trends in this paragraph constitute "forward-looking" information, and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, fluctuations in the world agricultural markets, particularly the target markets for ICL's products, including, among other things, changes in the levels of supply and demand, prices of the products, commodities and grains, input prices, changes in government subsidies to farmers, transportation and energy prices, and they may be impacted by actions taken by governments, manufacturers and consumers. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

[10] The estimates regarding future trends in this paragraph constitute "forward-looking" information, and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, fluctuations in the world agricultural markets, particularly the target markets for ICL's products, including, among other things, changes in the levels of supply and demand, prices of the products, commodities and grains, input prices, changes in government subsidies to farmers, transportation and energy prices, and they may be impacted by actions taken by governments, manufacturers and consumers. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

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

**Main developments and the business environment in ICL: (Cont.)**

**Essential Minerals (Cont.)**

**Review of the business environment (Cont.)**

Phosphate – Commodity Products (Cont.)

– YPH JV's results in the first quarter of 2018 improved compared to the corresponding quarter last year, driven by a shift to specialty and higher margin products, as well as implementation of efficiency and cost-reduction measures. The off-season period and maintenance activities are expected to negatively impact the JV's results in the second quarter of 2018.

– Excluding the insurance compensation received in the first quarter of 2017, in the amount of $10 million, ICL Rotem demonstrated better results in the first quarter of 2018 compared to the corresponding quarter last year, supported by improved market conditions. During the second quarter of 2018, ICL Rotem is expected to enter into a maintenance period mainly in preparation for implementation of the Clean Air Law, which is expected to unfavorably affect the production level and as a result, sales and operating income.

– In connection with the appeal filed by Adam Teva V'Din – Israeli Association for Environmental Protection (hereinafter – ATD) in the matter of the building permit for Pond 4, in March 2018, the Appeals Committee fully rejected the claims of ATD regarding the permit, which remains in effect up to May 31, 2018. Regarding the permits for Pond 5, the Appeals Committee determined that in connection with the northern part of the Pond, the permits for preparation and use can presently be issued. As for the southern part of the pond, the Committee determined that the permit for continuation of the preparation works and the use permit will be subject to a decision of the Tamar Local Committee, which will be issued pursuant to the results of a discussion, headed by the Ministry of Environmental Protection, relating to the future of the gypsum ponds and their location.

Specialty Fertilizers

– ICL Specialty Fertilizers' sales and operating profit increased in the first quarter of 2018 compared to the corresponding quarter last year. The said increase in sales derives mainly from our specialty agriculture activities in Europe, North America and Asia-Pacific. The strengthening of the main transaction currencies against the dollar coupled with higher volumes had a significant positive effect on the total sales. The business line's profitability was positively affected by increasing sales volumes, prices and exchange rate effects.

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

**Main developments and the business environment in ICL: (Cont.)**

**Essential Minerals (Cont.)**

**Review of the business environment (Cont.)**

Specialty Fertilizers (Cont.)

– ICL Specialty Fertilizers recorded higher sales to Europe despite a delay in fertilizer application due to harsh winter conditions. The business line expects to recover part of the lost sales in Q2.[11]

– Improved sales volumes were recorded for controlled-release and water-soluble fertilizers, as well as for straight fertilizers (MAP & MKP), as a result of better demand mainly in Europe and the U.S.

**Results of operations for the period January – March 2018 (millions of dollars)**

| | Potash and Magnesium | Phosphates – Commodity Products | Specialty Fertilizers | Eliminations | Total |
|---|---|---|---|---|---|
| **Total sales in Q1 2017** | **283** | **292** | **192** | **(33)** | **734** |
| Quantity | 20 | (70) | 10 | 7 | (33) |
| Price | 31 | 23 | 2 | – | 56 |
| Exchange rate | 19 | 20 | 17 | 1 | 57 |
| **Total sales in Q1 2018** | **353** | **265** | **221** | **(25)** | **814** |

Quantity – the decrease derives mainly from a decrease of phosphate fertilizers (mainly in Europe and Asia) and phosphoric acid quantities sold. This decrease was partly offset by an increase of potash and specialty agriculture products quantities sold.

Price – the increase derives mainly from an increase in potash, phosphoric acid and phosphate fertilizers selling prices.

Exchange rate – the increase derives mainly from the upward revaluation of the euro against the dollar.

[11] The estimates regarding the sales in the second quarter in this paragraph constitute “forward-looking” information, which is based on among other things, estimates of ICL’s management. The actual level of sales could change due to, among other things, changes in the weather, changes in the levels of supply and demand, changes in the prices of the products, transportation costs, the business situation of the customers and they may be impacted by regulation and actions taken by governments, manufacturers and consumers. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

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

**Main developments and the business environment in ICL: (Cont.)**

**Essential Minerals (Cont.)**

**Analysis of operating income**

| | $ millions | |
|---|---|---|
| **Total operating income – Q1 2017** | **66** | |
| Quantity | 19 | ⬆ |
| Price | 56 | ⬆ |
| Exchange rate | (10) | ⬇ |
| Raw materials | (15) | ⬇ |
| Energy | (5) | ⬇ |
| Transportation | (8) | ⬇ |
| Operating expenses and other income (expenses) | (13) | ⬇ |
| **Total operating income – Q1 2018** | **90** | |

Quantity – an improved mix, mainly due to increased share of sales from higher margin sites at ICL Potash, resulted in a positive contribution to the operating income.

Price – the increase derives mainly from an increase in potash, phosphoric acid and phosphate fertilizers selling prices.

Exchange rate – the decrease derives mainly from the upward revaluation of the euro and the shekel against the dollar, which increased production costs. This decrease was partly offset by the upward revaluation of the euro against the dollar, which increased revenues.

Raw materials – the decrease derives mainly from an increase in sulphur prices (used in the green phosphoric acid production in ICL Phosphate Commodities) and an increase in commodity fertilizers prices which are used as raw materials in ICL Specialty Fertilizers.

Energy – the decrease derives mainly from an increase in electricity prices, together with higher gas and water costs.

Transportation – the negative impact derives mainly from an increase in marine transportation prices and an increase in potash quantities sold, partly offset by a decrease in the quantities of ICL Phosphate Commodities' products sold.

Operating expenses and other income (expenses) – the decrease derives mainly from insurance income in Israel, recorded in the corresponding quarter last year.

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

**Main developments and the business environment in ICL: (Cont.)**

**Essential Minerals (Cont.)**

**Additional Information – Essential Minerals**

**Phosphate Commodity Products – Production and Sales**

| | 1–3/2018 | 1–3/2017 | 2017 |
|---|---|---|---|
| | Thousands of Tons | | |
| **Phosphate rock** | | | |
| Production of rock | **1,273** | 1,400 | 4,877 |
| Sales* | **119** | 160 | 498 |
| Phosphate rock used for internal purposes | **1,061** | 1,096 | 4,300 |
| **Fertilizers** | | | |
| Production of rock | **519** | 570 | 2,094 |
| Sales* | **518** | 649 | 2,291 |

* To external customers.

**January – March 2018**

Production of phosphate rock – in the first quarter of 2018, production of phosphate rock was lower by 127 thousand tons than in the corresponding quarter last year, mainly due to decreased production in ICL Rotem in Israel.

Sales of phosphate rock – the quantity of phosphate rock sold in the first quarter of 2018 was 41 thousand tons lower than in the corresponding quarter last year, mainly due to challenging business environment and unattractive rock prices.

Production of phosphate fertilizers – in the first quarter of 2018, production of phosphate fertilizers was lower by 51 thousand tons than in the corresponding quarter last year, mainly due to maintenance activities in ICL Rotem and decreased production in YPH joint venture as a result of the shift to specialty products.

Sales of phosphate fertilizers – the quantity of phosphate fertilizers sold in the first quarter of 2018 was 131 thousand tons lower than in the corresponding quarter last year, mainly due to a decrease in sales in China by the YPH joint venture as a result of the shift to specialty products, and a decrease in sales to Europe due to weather-related application delays.

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

**Main developments and the business environment in ICL: (Cont.)**

**Essential Minerals (Cont.)**

**Additional Information – Essential Minerals**

**Potash Activities – Main Data**

| | 1–3/2018 | 1–3/2017 | 2017 |
|---|---|---|---|
| | Millions of Dollars | | |
| Sales to external customers | **305** | 231 | 1,181 |
| Sales to internal customers* | **34** | 36 | 149 |
| **Total sales** | **339** | 267 | 1,330 |
| **Gross profit** | **142** | 84 | 555 |
| **Operating income attributable to the potash business** | **71** | 41 | 303 |
| **Depreciation and amortization** | **31** | 27 | 121 |
| **Capital expenses** | **57** | 57 | 256 |
| **Average potash selling price – FOB (in $)** | **244** | 216 | 219 |

* Sales to other business lines of ICL including the Magnesium business.

The potash stand-alone activities include, among others, Polysulphate ™ produced in a mine in the UK and salt produced in underground mines in UK and Spain.

**Potash – Production and Sales**

| | 1–3/2018 | 1–3/2017 | 2017 |
|---|---|---|---|
| | Thousands of Tons | | |
| Production | **1,160** | 1,057 | 4,773 |
| Sales to external customers | **1,021** | 942 | 4,687 |
| Sales to internal customers | **85** | 72 | 352 |
| Total sales (including internal sales) | **1,106** | 1,014 | 5,039 |
| Closing inventory | **454** | 709 | 400 |

**January – March 2018**

Production – in the first quarter of 2018, production of potash was 103 thousand tons higher than in the corresponding quarter last year. In ICL Iberia, an increase in production derived from an efficiency plan implemented in the beginning of the year and from higher ore grade in the mining area in the current quarter. In addition, in the first quarter of 2017 there was an operational breakdown in the mine tailing channel that unfavorably impacted production in ICL UK.

Sales to customers – the quantity of potash sold to external customers in the first quarter of 2018, was 79 thousand tons higher than in the corresponding quarter last year, mainly due to an increase in potash sales to Asia and South America.

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

**Set forth below are the highlights of the changes in the cash flows in the first quarter of 2018, compared with the corresponding quarter last year:**

**Net cash provided by operating activities:**

In the first quarter of 2018, the cash flows provided by operating activities decreased by $159 million compared with the corresponding quarter last year. This decrease derives mainly from higher sales and production quantities, mainly in ICL Potash, resulting in an increase in the trade receivables and inventory, along with lower cash received from derivative transactions in the amount of $34 million.

**Net cash used in investing activities:**

In the first quarter of 2018, the cash flows provided by investing activities increased compared with the cash flows used in the corresponding quarter last year, by $915 million. This increase derives mainly from the net cash proceeds received from the sale transaction of the Fire Safety and Oil Additives businesses in the amount of $931 million. The said increase was partly offset due to an increase in the cash flows used for investments in property, plant and equipment, in the amount of $21 million.

**Net cash used in financing activities:**

In the first quarter of 2018, there was an increase of $38 million in the cash flows used in financing activities compared with the corresponding quarter last year. This increase derives mainly from an increase in repayment of short-term credit, in the amount of $202 million which was offset by an increase in the receipt of long-term debt, net in the amount of $173 million.

**Financial Liabilities**

As at March 31, 2018, the net financial liabilities of ICL amounted to $2,269 million, a decrease of $768 million compared with December 31, 2017. The decrease of the net financial liabilities derives mostly from the proceeds received from the sale of the Fire Safety and Oil Additives ($P_2S_5$) businesses, which were partially offset by dividend payments in the amount of $69 million and purchases of property, plant and equipment.

The total amount of the securitization framework and credit facility deriving therefrom amounts to $350 million. As at March 31, 2018, ICL had used $311 million of the securitization facility.

ICL also has long-term credit facilities of $2,026 million and €60 million, of which $1,410 million was unused as at March 31, 2018.

On March 21, 2018, Fitch Ratings reaffirmed ICL’s international corporate credit rating at BBB– with a stable rating outlook. Fitch’s above-mentioned rating also applies to ICL’s debentures. Subsequent to the date of the report, on May 10, 2018, the rating company, Standard & Poor’s Global reaffirmed ICL’s international credit rating at BBB– with a stable rating outlook, and S&P Maalot reaffirmed ICL’s credit rating (ilAA) with a stable rating outlook.

As at the date of the report, ICL was in compliance with the financial covenants existing in its financing agreements.

**Critical accounting estimates**

In the three months ended March 31, 2018, there were no significant changes in the critical accounting estimates.

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

**Directors and members of senior management**

Further to that stated in ICL's financial statements for the year ended December 31, 2017, regarding the appointment of Mr. Raviv Zoller as the Company's CEO, on April 29, 2018, the Company announced that Mr. Zoller will assume his position as ICL's CEO on May 14, 2018, and will replace the Company's acting CEO, Mr. Asher Grinbaum.

At the General Meeting of ICL's shareholders held on April 24, 2018, all of the items on the Day's Agenda were approved: 1) the service and employment conditions of the Company's incoming CEO, Mr. Raviv Zoller, and the grant to him of equity compensation in respect of 2018, which will be issued to Mr. Zoller upon his entry into his position, as stated above; 2) a special bonus to the Executive Chairman of the Company's Board of Directors, Mr. Johanan Locker, in respect of 2017; and 3) renewal of the management services agreement with the Company's controlling shareholder, Israel Corporation Ltd.

For a description of the items detailed above – see also ICL's financial statements for the year ended December 31, 2017.

On May 9, 2018, the Company's Board of Directors decided, after receiving the recommendation and approval of the Company's Audit Committee from May 8, 2018, to appoint Mr. Amir Meshulam as the Company's new Internal Auditor. The appointment of the new Internal Auditor will take effect on August 1, 2018 or shortly thereafter. The new Internal Auditor will replace the Company's presently serving Internal Auditor, Mr. Shmulik Daniel, who has served in his position since August 2014 and will be leaving on retirement.

**Risk factors**

In the three months ended March 31, 2018, there were no significant changes in ICL's risk factors as they were described in Section 8.23 of the Annual Report for 2017.

**Legal proceedings**

<u>Derivative claims</u>

Further to that stated in ICL's Annual Report for the year ended December 31, 2017, in connection with an application for certification of a derivative action filed against ICL, the five highest-paid senior ICL officers and the members of ICL's Board of Directors, regarding the payment of annual bonuses for the years 2014 and 2015, on April 17, 2018, the applicant filed his reply to ICL's response to the said application for certification of a derivative action. In addition, on May 2, 2018, the Supreme Court accepted ICL's appeal in connection with the District Court's decision to reject ICL's request to submit the report of the Special External Committee established by ICL's Board of Directors for purposes of examining all the aspects arising from the application for certification (the "Special Committee's Report"), and determined that the Special Committee's Report will be submitted as evidence to the District Court. The Supreme Court further ruled that the applicant shall bear a portion of ICL's expenses in connection with its request for appeal.

For further information regarding legal proceedings and other contingent liabilities against ICL – see Note 6 to the condensed consolidated interim financial statements as at March 31, 2018.

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

**Other information**

Merger of PotashCorp and Atrium

To the best of ICL's knowledge and in accordance with that stated in the financial statements of Nutrien Ltd., the controlling shareholder of Potash Corporation of Saskatchewan Inc. ("PotashCorp"), which were published on February 5, 2018, on January 24, 2018, sale of all of the holdings of PotashCorp in ICL, in the amount of 176,088,630 shares, mainly to institutional entities in Israel and in the United States, was completed.

Completion of sale of the Fire Safety and Oil Additives ($P_2S_5$) businesses

Further to the disclosure provided in ICL's Annual Report for the year ended December 31, 2017, in connection with the agreement for sale of ICL's Fire Safety and Oil Additives ($P_2S_5$) businesses to SK Capital, the Company completed the sale transaction on March 28, 2018.

The net cash proceeds received from the sale transaction amounted to $931 million. ICL recorded a capital gain in its financial statements for the first quarter of 2018, in the amount of $841 million.

Issuance of new long-term debentures and tender offer for acquisition of existing debentures of ICL

Subsequent to the date of the report, ICL announced the final results of the cash tender offer (the "tender offer") in respect of a tender offer for any and all of its Senior Notes bearing interest of 4.5% due in 2024 (the "2024 notes") and a private issuance of new, unsecured, long-term senior notes for 20 years (the "private offer"). For additional details – see Note 6B(5) to the condensed consolidated interim financial statements.

Interim Report – Naveh Committee

Further to the disclosure provided in Section 8.23 "Risk Factors", and Section 8.10.4.5A "Concessions and Mining Rights" in the Corporation's Periodic Report for 2017, subsequent to the date of the report, on May 23, 2018, the Ministry of Finance in Israel published an interim report of the inter-ministerial committee headed by Mr. Yoel Naveh, which examined the actions required on the part of the Government towards the end of the concession period for the Dead Sea in 2030 ("the Team"). The Team's interim report includes a number of guiding principles and recommendations regarding the actions the Government will need to take, and a public hearing is expected to be held on a date and in a manner not yet determined. ICL is studying the Team's interim report and it intends to express its position as part of the public hearing process, as stated.

**Events occurring during the period of the report and thereafter**

Legal proceedings and regulation:

A. Update regarding the royalties' arbitration in Israel – for details see Note 6B(4) to the condensed consolidated interim financial statements.

B. Update regarding a request for certification of derivative claim in connection with the annual bonus paid to officers of the Corporation for 2014 and 2015 – for details see the ICL Section "Legal Proceedings" above.

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

**Events occurring during the period of the report and thereafter (Cont.)**

Legal proceedings and regulation: (Cont.)

C. Update regarding requests for certification of class action claims due to partial collapse of the dike in the evaporation pond of Rotem Amfert Negev – for details see Note 6B(2) to the condensed consolidated interim financial statements.

D. Update regarding an appeal with respect to the building permit for Pond 4 and permits for Pond 5 at Rotem – for details see Note 6B(3) to the condensed consolidated interim financial statements.

E. A request for certification of a class action claim against Rotem Amfert Negev and Periclase Dead Sea regarding items causing harm to the environment in Ein Bokek – for details see Note 6B(1) to the condensed consolidated interim financial statements.

F. Results of the vote at the General Meeting of the shareholders on April 24, 2018 – for details see the ICL Section "Directors and Members of Senior Management" above.

G. Regarding a publication of the Ministry of Finance in Israel of the interim report of the inter-ministerial team headed by Mr. Yoel Naveh, which examined the actions the Government is required to take towards the end of the concession period for the Dead Sea in 2030 – see the ICL Section "Other Information", above.

Financing:

A. Reaffirmation of ICL's credit rating – for details regarding the reaffirmations of ICL's credit ratings and ICL's rating – see Note 5B(5) to the condensed consolidated interim financial statements.

B. Repayment of a short-term loan from Israeli Corporation – for details regarding full repayment of its loans, in the amount of $175 million, received from its controlling shareholders – see Additional Information in the separate-company (solo) financial statements.

C. Issuance of new long-term debentures and a tender offer for ICL's existing debentures – for details see Note 5B(6) to the condensed consolidated interim financial statements.

Other:

A. Completion of sale of ICL's Fire Safety and Oil Additives ($P_2S_5$) businesses – for details see Note 5B(3) to the condensed consolidated interim financial statements and see the ICL Section "Additional Information" above.

B. Changes in the members of ICL's senior management – for details see the ICL Section "Directors and Members of Senior Management" above.

C. Granting of equity remuneration in ICL – for details see Notes 5B(1) and 5B(2) to the condensed consolidated interim financial statements

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

**Events occurring during the period of the report and thereafter (Cont.)**

Other: (Cont.)

D. The plan of ICL's management in connection with regarding discontinuance of production of potash at ICL UK and transition to full production of polysulphate – for additional details, including approval of a plan to reduce the number of employees of ICL UK – see Note 5B(4) to the condensed consolidated interim financial statements.

**OIL REFINERIES LTD.**

In the first quarter of 2018, the trend of an increase in the price of Brent crude oil, which started in the second half of 2017, continued, and was impacted mainly by the decision of the OPEC countries to limit oil production, joining of other countries, such as, Russia, to the decision, and compliance with the limitation targets. At the same time, the increase in crude oil production continued in countries that are not members of OPEC, particularly the United States, which has restrained the increase in oil prices. In the period of the report, Brent was traded at between $70 and $70 per barrel. At the end of the first quarter of 2018, the Brent price was fixed at $67 per barrel and subsequent to the date of the report, the Brent price rose to $70 per barrel against the background of confirmation of limitation of the production by the OPEC countries and the tension in the Middle East and the Far East.

In the period of the report, the price of Ural crude oil, which is heavy crude oil, was traded compared to Brent prices (which is light crude oil), with an average disparity of $1.7 per barrel, compared with $1.5 per barrel in the corresponding period last year. The volatility of the disparity between heavy crude and light crude was great, ranging between $0 to $2.7 per barrel, and stemmed mainly from an increase in supply of Ural crude oil substitutes.

In the first quarter of 2017, the crude oil futures market was rising (contango) at the level of about $0.3 per barrel per month. Commencing from the second quarter of 2017, the market switched to a receding market (backwardation), and in the period of the report, the trend continued at about $0.3 per barrel per month.

Refining Margins:

Reuters Ural margin

The Reuters Ural margin is a reference margin published by Reuters for a typical Mediterranean refinery that only cracks Ural crude, has no hydrocracking capacity, does not make full use of natural gas, and purchases crude oil and sells its refined products on the same day. Therefore, there may be significant differences between the Reuters Ural margin and ORL's refining margins. Comparison to this margin could provide insight into the developing trends of ORL's refining margin, and does not constitute an accurate parameter for estimating ORL's refining margin in the short term.

The Reuters Ural margin weakened in the Reporting Period compared with the corresponding period last year. The main cause is the sharp rise in the price of oil, which led to a temporary decline in margins.

**OIL REFINERIES LTD. (Cont.)**

Refining Margins: (Cont.)

Bloomberg weighted-average Ural margin

In September 2017 the Bloomberg Media Group began publishing regional refining margins, including Mediterranean region margins. These margins are calculated for a variety of crude oil types and refining configurations. Since publication began, ORL has considered whether the margins published by Bloomberg are appropriate for the nature of its operations, and based on its review ORL believes that the margin that probably provides a better understanding of the development of ORL's refining margin is a weighted-average (50/50) of two Mediterranean Ural refining margins: (1) Med Urals HY Margin – Hydrocracking; and (2) Med Urals FCC Margin – Fluid catalytic cracking ("Weighted Bloomberg Ural margin").

Unlike the Reuters Ural margin, the Weighted Bloomberg Ural margin (based on the data published by Bloomberg) includes partial hydrocracking capacity and full use of natural gas as source of energy. Nonetheless, there may be significant disparity between the Bloomberg Ural margin and ORL's refining margins, among other things, because Bazan's refining facility is different, it refines a variety of types of crude oil and interim materials by optimization of its facilities, as well as the prices of natural gas, crude oil and distillates, which are different from those used for calculating the Bloomberg Ural margin. Therefore, the comparison with this margin does not constitute an accurate benchmark for estimating ORL's refining margin, particularly for short periods.

In the period of the report, there was a substantial increase in the discount on Ural crude compared with both Brent and other heavy crudes refined by ORL in the Reporting Period. Ural crude, which ORL did not process during the Reporting Period, is the crude oil on which both Reuters and Bloomberg margins are based. Furthermore, due to the sharp rise in the price of crude oil that was partially reflected in ORL's margins in the Reporting Period and the effect of backwardation minimized the difference between the adjusted margin of ORL and the benchmark margins.

Polymers

Raw material prices used for the polymer activities, particularly naphtha, rose in the period of the report compared with the corresponding period last year, concurrent with the increase in the crude oil prices. In the period of the report, the polymer (polyethylene and polypropylene) prices increased compared with the corresponding period last year, together with the increase in the raw-material and energy prices. The increase in the polypropylene prices compared with polyethylene was even stronger due to, among other things, the different behavior of the propylene and the ethylene, the prices of the raw-material prices for production of polymers in Europe. In the period of the report, the difference between the polypropylene prices and the naptha prices was at a higher level than in the corresponding period last year, and the difference between the polyethylene prices and the naptha prices was at a lower level than in the corresponding period last year. That stated above is parallel to the behavior of the polypropylene and the polyethylene prices, which as noted are impacted by, among other things, the prices of the raw materials used for production of polymers in Europe (propylene and ethylene), and against the background of the increase in the naptha prices.

**Results of operations**

In order to present the results of the activities of the Fuels' segment on an economic basis as well, and for purposes of comparison with the various benchmark margins, the accounting effects in the fuel segment are adjusted and presented in a way that allows a better understanding of the performance of the Fuels' segment. Therefore, in this Report, the term "adjusted consolidated EBITDA" relates to the adjusted EBITDA of the Fuels' segment together with the EBITDA reported in the other activity sectors of the ORL Group.

**OIL REFINERIES LTD. (Cont.)**

**Results of operations (Cont.)**

Set forth below is selected data for the period of the report from the reported consolidated statements of income and the data is after eliminating accounting impacts for the first quarter (in millions of dollars):

| | 1–3/2018 | 1–3/2017 | Change |
|---|---|---|---|
| Sales | **1,646** | 1,205 | +37% |
| EBITDA | **156** | 116 | +34% |
| Depreciation expenses | **42** | 32 | |
| Other income (expenses), net | **1** | (3) | |
| **Operating income** | **115** | 81 | +42% |
| Financing expenses, net | **26** | 47 | |
| Share in losses of associated companies | **–** | 1 | |
| Taxes on income | **15** | 14 | |
| **Net income** | **74** | 19 | +289% |
| Fuel segment adjustments* | **(36)** | (42) | |
| **Adjusted EBITDA** | **120** | 74 | +62% |
| **Adjusted income** | **79** | 39 | +103% |
| **Net adjusted income (loss)** | **38** | (23) | |

* See below for details regarding the components of the adjustments in the fuel segment.

**Results of operations for the period January – March 2018**

It is noted that in the refining and petrochemicals industry, the main factor impacting the operating results is not the total sales but, rather, the refining and petrochemical margins, which are the difference between the revenues from sales of the basket of products and the cost of the raw materials acquired for their manufacture. In addition, the results are impacted by the availability of the production facilities.

During the period of the report, Carmel Olefins made planned periodic maintenance in the ethylene facilities, where the lost revenues as a result thereof are covered by insurance. Accordingly, the net impact of the said maintenance work on the results for the quarter is not material.

Revenues from sales by areas of activity:

| | Revenues (USD millions) | | | Average price of product mix (USD per ton) | | |
|---|---|---|---|---|---|---|
| | 1–3/2018 | 1–3/2017 | Change | 1–3/2018 | 1–3/2017 | Change |
| Fuels Segment | **1,440** | 1,037 | 403 | **549** | 474 | (1)75 |
| Polymers Segment – Carmel Olefins | **177** | 166 | (2)11 | **1,406** | 1,247 | 159 |
| Polymers Segment – Ducor | **55** | 55 | – | **1,515** | 1,219 | 296 |
| **Total Polymers Segment** | **232** | 221 | 11 | | | |
| Aromatics Segment – Gadiv | **133** | 37 | (3)96 | **826** | 680 | 146 |
| Adjustments and others | **(159)** | (90) | (69) | | | |
| **Total consolidated income** | **1,646** | 1,205 | 441 | | | |

(1) Mainly due to an increase in the price of energy, parallel to an increase in the price of crude oil.
(2) Mainly due to an increase in the selling prices and income from insurance indemnification in respect of lost profits, which was offset by a decline the quantities sold due to, among other things, the planned maintenance activities in the ethylene facility.
(3) Mainly due to an increase in the quantities sold due to the periodic maintenance in all of the facilities of Gadiv in the corresponding period last year.

**OIL REFINERIES LTD. (Cont.)**

**Results of operations for the period January – March 2018 (Cont.)**

Set forth below are the adjusted components in the fuels' sector and their effect on EBITDA:

| | January–March | |
|---|---|---|
| | **2018** | **2017** |
| | **$ millions** | |
| **Increase (decrease) in the accounting income** | | |
| Income from timing differences (1) | **(14)** | (6) |
| Income from adjustment of value of inventory to market value, net (2) | **(16)** | (26) |
| Impacts of changes in fair value of derivatives and realizations (3) | **(6)** | (10) |
| **Total adjustments in the fuels' segment** | **(36)** | (42) |

(1) Expenses (income) arising from changes in the value of unhedged inventory. In accordance with its policy, ORL does not engage in hedging contracts for inventory of up to 730 thousand tons, other than inventories under the available inventory transaction. As at March 31, 2018 the volume of inventory not secured with contracts is 480 thousand tons.
(2) Expenses (income) arising from changes in the adjustment of the balance of the hedged inventory to market value and expenses (income) from changes in accounting provision for impairment of unhedged inventory, at the end of the period of the report.
(3) Expenses (income) arising from reevaluation of the fair value of open positions that do not relate to hedged inventory (such as hedging of refining margins). The cumulative profit or loss with regard to these positions will be attributed to the adjusted EBITDA when disposed.

Set forth below is table summarizing the comparison of ORL's refining margins, including the proforma refining margins for the period of the report after eliminating the periodic maintenance, to the Ural margin:

| | January–March | |
|---|---|---|
| | **2018** | **2017** |
| | **$ millions** | |
| Accounting margin – dollar per ton | **53.3** | 55.2 |
| Adjustments in the fuels' segment – dollar per ton | **(13.3)** | (21.6) |
| Adjusted margin – dollar per ton | **40.0** | 33.6 |
| Adjusted margin – dollar per barrel | **5.5** | 4.6 |
| Bloomberg weighted-average Ural margin – dollar per barrel | **5.4** | 5.8 |
| Reuters Ural margin – dollar per barrel | **4.0** | 5.0 |

As noted above, in the period of the report there was a substantial increase in the discount on Ural crude compared with both Brent and other heavy crudes refined by ORL in the period of the report. Ural crude, which ORL did not process during the period of the report, is the crude oil on which both Reuters and Bloomberg margins are based. Furthermore, due to the sharp rise in the price of crude oil that was partially reflected in ORL's margins in the period of the report and the effect of backwardation minimized the difference between the adjusted margin of ORL and the benchmark margins.

Significant events in the period of the report and thereafter

1. Further to that stated in Section 9.12.8 of the Periodic Report as at December 31, 2017, subsequent to the date of the report, on April 8, 2018, the site plan entered into effect for area on which the facilities of ORL are located, after it was published in order to give effect. Regarding the decision of the District Court to reject the petitions filed against approval of the plan, an appeal has been filed with the Supreme Court that has not yet been heard.

**OIL REFINERIES LTD. (Cont.)**

**Results of operations for the period January – March 2018 (Cont.)**

Significant events in the period of the report and thereafter (Cont.)

2. Further to that stated in Section 9.15.8 of the Periodic Report as at December 31, 2017, the business licenses and temporary permits issued by the City of Haifa were extended for all the Group companies, up to December 31, 2018.

3. Further to that stated in Section 9.14.2.1 of the Periodic Report as at December 31, 2017, subsequent to the date of the report, on May 13, 2018, ORL received a letter from the Office of the Prime Minister stating mainly as follows: the National Council for Economics has taken action over the past several years to advance regional economic development in Israel, with emphasis on large metropolitan development: Haifa; Be'er Sheva and Jerusalem as leverage for development of the periphery. The matter of the future of Haifa Bay was identified as one of the main elements regarding the Haifa metropolis. Further to the government's actions to reduce air-pollution and reduction of environmental hazards in Haifa Bay, the National Council for Economics was required to examine the future of the ORL Group in Haifa Bay. For this purpose, an inter-ministerial team was set up, including senior representatives from the Ministries of Economics, Energy, Finance and Environmental Protection, and Israel Lands Authority and the Planning Administration, which is examining a number of main alternatives. In the framework of the letter, a meeting was requested with ORL's CEO in order to present the project to him, to discuss its targets and the various different alternatives.

   ORL is thankful for the government's intention to hold a strategic discussion at the national level, with the participation of all the relevant government persons, regarding the future of the ORL Group in Haifa Bay. ORL intends to fully cooperate with the inter-ministerial team in order to find a strategic, appropriate and sustainable alternative with the sponsorship and under the responsibility of the State for the continued development of the ORL Group. As at the date of the report, ORL is not able to estimate the outcome of the inter-ministerial team's work, if any, and what the impacts will be for ORL, should there ultimately be any impacts.

**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 2017 on March 22, 2018 and up to the publication date of this report[12]:

**To Section 5A of Paragraph A of the Periodic Report – Distribution of Dividends**

A. Regarding the Corporation's notification of the effective date for distribution of a dividend – see the Corporation's Immediate Report dated March 25, 2018 (Ref. No. 2018-01-028963).

B. Further to the Immediate Report dated March 23, 2018 regarding distribution of a dividend (Ref. No. 2018-01-028528), regarding the Corporation's update of the amount of the dividend per share – see the Corporation's Immediate Report dated April 8, 2018 (Ref. No. 2018-01-034978).

[12] 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 2017 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 2017, which was published on March 22, 2018 (Ref. No. 2018-01-028525) (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.)**

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

A. Regarding completion of sale of the Fire Safety and Oil Additives businesses to SK Capital – see the Corporation's Immediate Report dated March 29, 2018 (Ref. No. 2018-01-032347).

B. Regarding a request for certification of a claim as a class action in connection with the collapse event of the dike in the evaporation of the subsidiary Rotem Amfer Negev Ltd. – see the Corporation's Immediate Report dated May 2, 2018 (Ref. No. 2018-01-043822).

C. For the financial statements of ICL as at March 31, 2018 and a slide presentation for investors published by ICL further thereto – see the Corporation's Immediate Reports dated May 10, 2018 (Ref. Nos. 2018-01-046915, 2018-01-046918 and 2018-01-046927, respectively).

D. For a report regarding the Report of the Board of Directors of ICL for the first quarter of 2018 – see the Corporation's Immediate Report dated May 10, 2018 (Ref. No. 2018-01-046921).

E. In connection with the notification of ICL regarding reaffirmation of ICL's international credit rating, along with a stable rating outlook by the credit rating company Standard & Poor's Global Rating – see the Corporation's Immediate Report dated May 10, 2018 (Ref. No. 2018-01-047023).

F. On May 14, 2018, ICL gave notice of a cash tender offer ("the Tender Offer") for ICL's senior debentures, bearing interest of 4.5% and scheduled for repayment in 2024 ("the 2024 Debentures"). For additional details – see Note 5B(6) to the condensed consolidated interim financial statements.

   On May 22, 2018, ICL gave notice that the Tender Offer was executed pursuant to and subject to the provisions of the offering document dated May 14, 2018, and that in accordance with the information provided to it, a total of $600,148,764 par value debentures (2024) were offered as required for sale up to or on the expiration date. ICL agreed to acquire all the debentures (2024) offered for sale, as stated, up to or on the expiration date, for an aggregate consideration of $605,081,986.84, or $1,008.22 for every $1,000 par value of debentures (2024). For details see Note 5B(6) to the condensed consolidated interim financial statements.

   On May 23, 2018, ICL announced the pricing for a private offer to institutional investors – for details see Note 5B(6) to the condensed consolidated interim financial statements.

G. In connection with an administrative petition regarding permits for the phosphate Ponds 4 and 5 at the Rotem Israel plant, and in connection with a request for disclosure of documents relating to collapse of Pond 3 – see the Corporation's Immediate Report dated May 17, 2018 (Ref. No. 2018-01-040080).

H. For details regarding an interim report of an inter-ministerial committee headed by Mr. Yoel Naveh – see the Corporation's Immediate Report dated May 24, 2018 (Ref. No. 2018-01-042552).

For additional details regarding ICL's business developments – see the Report of the Board of Directors of the Corporation as at March 31, 2018.

**To Section 12.3 of Paragraph A of the Periodic Report – Non-Bank Credit**

A. For details regarding the results of a tender to classified investors in contemplation of issuance of the debentures (Series 12 and 13) of the Corporation – see the Corporation's Immediate Report dated March 27, 2018 (Ref. No. 2018-01-030160).

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

**To Section 12.3 of Paragraph A of the Periodic Report – Non-Bank Credit (Cont.)**

B. In connection with a rating report of Maalot regarding rate of the debentures (Series 12 and 13) – see the Corporation's Immediate Reports dated March 27, 2018 (Ref. Nos. 2018-01-030415 and 2018-01-030436).

C. On March 28, 2018, the Corporation published a shelf offer report based on a shelf prospectus of the Corporation dated May 5, 2016 for issuance of debentures (Series 12 and 13). For details regarding offer the debentures (Series 12 and 13) and their terms – see the Corporation's Immediate Report dated March 28, 2018 (Ref. No. 2018-01-031036).

D. In connection with the results of the issuance to the public of the debentures (Series 12 and 13) pursuant to a shelf offer report dated March 28, 2018 see the Corporation's Immediate Report dated March 29, 2018 (Ref. No. 2018-01-032329).

**To Sections 12.2 and 15.2 of Paragraph A of the Periodic Report –Bank Credit and Significant Events and Agreements**

A. For additional details regarding the financial closing for shares of ICL as stated in Sections 12.2 and 15.2 of the Periodic Report –see Note 5A(5) to the condensed consolidated interim financial statements as at March 31, 2018.

**To Section 20 of Part D of the Periodic Report – Additional details regarding the Corporation – Trading on the Stock Exchange – Securities Registered for Trading / Discontinuance of Trade in the Year of the Report**

A. Commencing from April 1, 2018, the trading of the debentures (Series 12 and 13) started. For additional details – see the Reports of the Stock Exchange dated March 29, 2018

B. In connection with the Corporation's notification regarding extension of the period of the Corporation's shelf prospectus up to May 4, 2019 – see the Corporation's Immediate Report dated May 3, 2018 (Ref. No. 2018-01-044134).

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

**To Regulation 24(A) of Paragraph D of the Periodic Report – Additional details regarding the Corporation – Holdings of Interested Parties and Senior Officers**

For details with respect to changes that took place in the holdings of interested parties and officer of the Corporation – see the Immediate Reports dated March 27, 2018 (Ref. Nos. 2018-01-030880 and 2018-01-030847), April 8, 2018 (Ref. No. 2018-01-035386), April 10, 2018 (Ref. No. 2018-01-036112), April 12, 2018 (Ref. No. 2018-01-037474) and April 15, 2018 (Ref. No. 2018-01-037975).

**To Regulation 24(A) of Paragraph D of the Periodic Report – Registered Capital, Issued Capital and Convertible Securities, as at the Date of the Report**

For details with respect to changes that took place in the Corporation's capital subsequent to the date of the Periodic Report – see the Immediate Reports dated March 29, 2018 (Ref. Nos. 2018-01-032440 and 2018-01-032677), April 8, 2018 (Ref. No. 2018-01-035107) and April 10, 2018 (Ref. No. 2018-01-036481).

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

Set forth below is a quote from the Auditors' Review Report regarding a direction of attention:

Without qualifying our opinion as stated above, we direct attention to that stated in Note 6.C.3 regarding certain legal proceedings and other contingencies against ORL and its subsidiaries, which in the estimation of the managements of the defendant companies, based on the opinion of their legal advisors, it is not possible to predict at this point the impact thereof on the financial statements, if any, and accordingly, no provision in respect thereof has been included in the financial statements.

| | |
|---|---|
| **Aviad Kaufman**<br>**Chairman of the Board of Directors** | **Avisar Paz**<br>**CEO** |

May 24, 2018

# Israel Corporation Ltd.

## Condensed Consolidated Interim Financial Statements

## As at March 31, 2018

**(Unaudited)**

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

**Israel Corporation Ltd.**
**Condensed Consolidated Interim Financial Statements**
**At March 31, 2018**
**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 comprising of the condensed consolidated interim statement of financial position as at March 31, 2018 and the related 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 the preparation and presentation of this interim financial information in accordance with IAS 34 *"Interim Financial Reporting"*, 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 this interim financial information based on our review.

**Scope of the Review**

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of 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, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with 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 interim 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.

**Emphasis of matter paragraph (drawing of attention)**

Without qualifying our above-mentioned conclusion, we direct attention to that stated in Note 6.C.3 regarding certain legal proceedings and other contingencies against ORL and its subsidiaries, which in the estimation of the managements of the defendant companies, based on the opinion of their legal advisors, it is not possible to predict at this point the impact thereof on the financial statements, if any, and accordingly, no provision in respect thereof has been included in the financial statements.

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

**May 24, 2018**

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

| | At March 31 | | At December 31 |
|---|---|---|---|
| | **2018** | **2017** | **2017** |
| | (Unaudited) | | (Audited) |
| | In Millions of U.S. Dollars | | |
| **Current Assets** | | | |
| Cash and cash equivalents | **1,264** | 175 | 159 |
| Short-term investments and deposits | **460** | 725 | 558 |
| Loan to related company | **–** | – | 240 |
| Trade receivables | **1,014** | 968 | 932 |
| Inventories | **1,255** | 1,248 | 1,226 |
| Other receivables and debit balances, including derivative instruments | **332** | 276 | 260 |
| Assets held for sale | **–** | 122 | 169 |
| **Total current assets** | **4,325** | 3,514 | 3,544 |
| **Non-Current Assets** | | | |
| Investments in associated companies accounted for using the equity method of accounting | **571** | 563 | 578 |
| Investments measured at fair value through other comprehensive income | **219** | 240 | 212 |
| Loan to related company | **–** | 227 | – |
| Derivative instruments | **114** | 99 | 128 |
| Deferred tax assets | **123** | 144 | 132 |
| Other non-current assets | **384** | 300 | 309 |
| Property, plant and equipment | **4,627** | 4,401 | 4,571 |
| Intangible assets | **931** | 1,030 | 921 |
| **Total non-current assets** | **6,969** | 7,004 | 6,851 |
| **Total assets** | **11,294** | 10,518 | 10,395 |

**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 |
|---|---|---|---|
| | **2018** | **2017** | **2017** |
| | (Unaudited) | | (Audited) |
| | In Millions of U.S. Dollars | | |
| **Current Liabilities** | | | |
| Credit from banks and others | **921** | 1,070 | 901 |
| Trade payables | **736** | 695 | 790 |
| Provisions | **59** | 92 | 78 |
| Dividend payable to the owners of the Corporation | **120** | – | – |
| Other current liabilities, including derivative instruments | **757** | 737 | 670 |
| Liabilities held for sale | **–** | – | 43 |
| **Total current liabilities** | **2,593** | 2,594 | 2,482 |
| **Non-Current Liabilities** | | | |
| Debentures and long-term loans | **4,132** | 4,525 | 4,192 |
| Derivative instruments and other non-current liabilities | **19** | 9 | 7 |
| Provisions | **206** | 174 | 193 |
| Liabilities for deferred taxes | **268** | 321 | 242 |
| Provisions for employee benefits | **590** | 597 | 642 |
| **Total non-current liabilities** | **5,215** | 5,626 | 5,276 |
| **Total liabilities** | **7,808** | 8,220 | 7,758 |
| **Equity** | | | |
| Share capital and premium | **326** | 323 | 326 |
| Capital reserves | **(105)** | (159) | (117) |
| Capital reserve in respect of transactions with controlling shareholder | **190** | 190 | 190 |
| Retained earnings | **944** | 472 | 614 |
| **Total equity attributable to the owners of the Corporation** | **1,355** | 826 | 1,013 |
| **Holders of non-controlling interests** | **2,131** | 1,472 | 1,624 |
| **Total equity** | **3,486** | 2,298 | 2,637 |
| **Total liabilities and equity** | **11,294** | 10,518 | 10,395 |

| Aviad Kaufman | Avisar Paz | Sagi Kabla |
|---|---|---|
| **Chairman of the Board of Directors** | **CEO** | **CFO** |

Approval date of the financial statements: May 24, 2018

**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 | | Year Ended December 31 |
| | **2018** | **2017** | **2017** |
| | (Unaudited) | | (Audited) |
| | In Millions of U.S. Dollars | | |
| Sales | **1,404** | 1,295 | 5,418 |
| Cost of sales | **974** | 939 | 3,753 |
| **Gross profit** | **430** | 356 | 1,665 |
| Research and development expenses | **14** | 15 | 55 |
| Selling, transportation and marketing expenses | **200** | 180 | 746 |
| Administrative and general expenses | **72** | 68 | 267 |
| Other expenses | **13** | 6 | 100 |
| Other income | **(855)** | (19) | (109) |
| **Operating income** | **986** | 106 | 606 |
| Financing expenses | **83** | 142 | 382 |
| Financing income | **(35)** | (108) | (170) |
| **Financing expenses, net** | **48** | 34 | 212 |
| Share in income of associated companies accounted for using the equity method of accounting | **24** | 6 | 74 |
| **Income before taxes on income** | **962** | 78 | 468 |
| Taxes on income | **44** | 43 | 162 |
| **Income for the period** | **918** | 35 | 306 |
| **Attributable to:** | | | |
| Owners of the Corporation | **432** | 7 | 135 |
| Holders of non-controlling interests | **486** | 28 | 171 |
| **Income for the period** | **918** | 35 | 306 |
| **Income per share attributable to the owners of the Corporation: (in dollars)** | | | |
| Basic and diluted income per share | **56.66** | 0.90 | 17.81 |

**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 | | Year Ended December 31 |
| | 2018 | 2017 | 2017 |
| | (Unaudited) | | (Audited) |
| | In Millions of U.S. Dollars | | |
| **Income for the period** | **918** | 35 | 306 |
| **Components of other comprehensive income (loss) that will be recognized in future periods in the statement of income** | | | |
| Foreign currency translation differences in respect of foreign activities | **43** | 30 | 151 |
| Net change in fair value of cash flow hedges transferred to the statement of income | **7** | (9) | (16) |
| Group's share in other comprehensive income (loss) of companies accounted for using the equity method of accounting | **3** | (2) | 5 |
| Effective portion of the change in fair value of cash flow hedges | **(4)** | 9 | 17 |
| Net change in fair value of financial assets available for sale | **–** | (15) | (57) |
| Income tax in respect of components of other comprehensive income | **–** | 4 | 5 |
| **Total** | **49** | 17 | 105 |
| **Components of other comprehensive income (loss) that will not be recognized in future periods in the statement of income** | | | |
| Actuarial gains (losses) from defined benefit plans, net | **48** | (4) | (17) |
| Net change in investments measured at fair value through other comprehensive income | **(2)** | – | – |
| Group's share in other comprehensive income of investee companies accounted for using the equity method of accounting | **1** | – | – |
| Income taxes in respect of components of other comprehensive income (loss) | **(8)** | 1 | 3 |
| **Total** | **39** | (3) | (14) |
| **Other comprehensive income for the period, net of tax** | **88** | 14 | 91 |
| **Comprehensive income for the period** | **1,006** | 49 | 397 |
| **Attributable to:** | | | |
| Owners of the Corporation | **477** | 15 | 179 |
| Holders of rights non-controlling interests | **529** | 34 | 218 |
| **Comprehensive income for the period** | **1,006** | 49 | 397 |

**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, 2018** | | | | | | | | |
| **Balance at January 1, 2018 (audited)** | 326 | (157) | 40 | 190 | 614 | 1,013 | 1,624 | 2,637 |
| Impact of first-time application of IFRS 9* | – | – | (14) | – | (5) | (19) | – | (19) |
| **Balance at January 1, 2018 (audited)** | 326 | (157) | 26 | 190 | 609 | 994 | 1,624 | 2,618 |
| Share-based payments in a subsidiary | – | – | – | – | – | – | 8 | 8 |
| Dividend to holders of non-controlling interests in a subsidiary | – | – | – | – | – | – | (36) | (36) |
| Dividends to equity holders | – | – | – | – | (120) | (120) | – | (120) |
| Sale of shares of subsidiary while retaining control | – | 1 | – | – | 3 | 4 | 6 | 10 |
| Income for the period | – | – | – | – | 432 | 432 | 486 | 918 |
| Other comprehensive income for the period, net of tax | – | 19 | 6 | – | 20 | 45 | 43 | 88 |
| **Balance at March 31, 2018** | 326 | (137) | 32 | 190 | 944 | 1,355 | 2,131 | 3,486 |

* For details regarding the impact of the first-time application of IFRS 9 (2014) regarding financial instruments – see Note 3(B), below.

**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, 2017** | | | | | | | | |
| **Balance at January 1, 2017 (audited)** | 322 | (231) | 63 | 190 | 460 | 804 | 1,457 | 2,261 |
| Share-based payments in a subsidiary | – | – | – | – | – | – | 2 | 2 |
| Expiration of options granted to Corporation employees | 1 | – | (1) | – | – | – | – | – |
| Dividend to holders of non-controlling interests in a subsidiary | – | – | – | – | – | – | (29) | (29) |
| Sale of shares of subsidiary while retaining control | – | 1 | – | – | 6 | 7 | 8 | 15 |
| Income for the period | – | – | – | – | 7 | 7 | 28 | 35 |
| Other comprehensive income (loss) for the period, net of tax | – | 16 | (7) | – | (1) | 8 | 6 | 14 |
| **Balance at March 31, 2017** | 323 | (214) | 55 | 190 | 472 | 826 | 1,472 | 2,298 |

**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 Corporation's shareholders | | | | | | Non-controlling interests | Total capital |
|---|---|---|---|---|---|---|---|---|
| | Share capital and premium | Translation reserve for foreign activities | Capital reserves | Capital reserve for transactions with controlling shareholder | Retained earnings | Total | | |
| | $ millions | | | | | | | |
| **Balance at January 1, 2017** | 322 | (231) | 63 | 190 | 460 | 804 | 1,457 | 2,261 |
| Share-based payments in a subsidiary | – | – | – | – | – | – | 16 | 16 |
| Expiration of options granted to employees of a subsidiary | – | – | – | – | 5 | 5 | (5) | – |
| Expiration of options granted to employees of the Corporation | 4 | – | (4) | – | – | – | – | – |
| Dividend to holders of non-controlling interests in a subsidiary | – | – | – | – | – | – | (92) | (92) |
| Sale of shares of a subsidiary while retaining control | – | 4 | – | – | 21 | 25 | 30 | 55 |
| Income for the year | – | – | – | – | 135 | 135 | 171 | 306 |
| Other comprehensive income (loss) for the year, net of tax | – | 70 | (19) | – | (7) | 44 | 47 | 91 |
| **Balance at December 31, 2017** | 326 | (157) | 40 | 190 | 614 | 1,013 | 1,624 | 2,637 |

**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 |
|---|---|---|---|
| | 2018 | 2017 | 2017 |
| | (Unaudited) | | (Audited) |
| | In Millions of U.S. Dollars | | |
| **Cash flows from operating activities** | | | |
| Income for the period | **918** | 35 | 306 |
| Adjustments: | | | |
| Depreciation and amortization | **98** | 96 | 397 |
| Impairment in value of assets | **–** | – | 28 |
| Financing expenses, net | **34** | 77 | 224 |
| Share in income of associated companies accounted for using the equity method of accounting | **(24)** | (6) | (74) |
| Other capital gains, net | **–** | (9) | – |
| Gain on sale of businesses | **(841)** | – | (51) |
| Share-based payment transactions | **8** | 2 | 16 |
| Loss from re-measurement to fair value of collar options | **5** | 6 | 7 |
| Taxes on income | **44** | 43 | 162 |
| | **242** | 244 | 1,015 |
| Change in inventories | **(42)** | 28 | 57 |
| Change in trade and other receivables | **(50)** | (23) | 21 |
| Change in trade and other payables | **(37)** | (54) | (57) |
| Change in provisions and employee benefits | **(26)** | 5 | (4) |
| | **87** | 200 | 1,032 |
| Income taxes paid, net | **(29)** | (22) | (132) |
| Dividends received | **21** | 35 | 35 |
| **Net cash provided by operating activities** | **79** | 213 | 935 |

**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 | | Year Ended December 31 |
|---|---|---|---|
| | **2018** | **2017** | **2017** |
| | (Unaudited) | | (Audited) |
| | In Millions of U.S. Dollars | | |
| **Cash flows from investing activities** | | | |
| Proceeds from deposits, net | **10** | (10) | (65) |
| Short-term deposits and investments, net | **81** | (34) | 205 |
| Proceeds from sale of businesses | **931** | – | 6 |
| Acquisition of property, plant and equipment and intangible assets | **(127)** | (106) | (457) |
| Collection of long-term loans from related company | **200** | – | – |
| Interest received | **41** | 1 | 6 |
| Net proceeds from sale of shares of companies accounted for using the equity method of accounting | **–** | – | 224 |
| Other | **–** | 12 | 12 |
| Receipts from derivative transactions not used for hedging, net | **4** | 32 | 37 |
| **Net cash provided by (used in) investing activities** | **1,140** | (105) | (32) |
| **Cash flows from financing activities** | | | |
| Dividend paid to holders of non-controlling interests in subsidiary | **(36)** | (31) | (124) |
| Receipt of long-term loans and issuance of debentures | **656** | 628 | 1,174 |
| Repayment of long-term loans and debentures* | **(621)** | (647) | (1,756) |
| Short-term credit from banks and others, net | **(63)** | (36) | (28) |
| Receipts from derivative transactions used for hedging, net | **4** | 1 | 3 |
| Interest paid* | **(58)** | (61) | (218) |
| **Net cash provided by (used in) financing activities** | **(118)** | (146) | (949) |
| **Increase (decrease) in cash and cash equivalents** | **1,101** | (38) | (46) |
| Cash and cash equivalents at beginning of the period | **164** | 211 | 211 |
| Cash and cash equivalents held as part of assets held for sale | **–** | – | (5) |
| Effect of exchange rate fluctuations on balances of cash and cash equivalents | **(1)** | 2 | (1) |
| **Cash and cash equivalents at the end of the period** | **1,264** | 175 | 159 |

* As at March 31, 2017, includes payments of principal and interest in respect of debentures, in the amount of about $60 million, which were postponed in accordance with the trust certificates from December 31, 2016, since the contractual repayment date was not a business day.

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

## Note 1 – The Reporting Entity

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

The Corporation acts to advance and develop the Group's existing businesses in and outside of Israel. The Corporation operates, by means of two main investee companies, Israel Chemicals Ltd. (hereinafter – "ICL") and Oil Refineries Ltd. (hereinafter – "ORL"). The Corporation is involved in management of the Group companies through directors serving on the Boards of Directors of the investee companies.

## 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, 2017 (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 24, 2018.

### B. 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 except as detailed below.

## Note 3 – Significant Accounting Policies

The Group's accounting policies in these condensed consolidated interim financial statements are the same accounting policies applied in the Annual Financial Statements, except as detailed below:

### First-time application of new accounting standards

A. International Financial Reporting Standard IFRS 15 "Revenues from Contracts with Customers"

Commencing from January 1, 2018 the Group initially applies International Financial Reporting Standard 15 (hereinafter in this section – "the Standard"), which provides guidance with respect to revenue recognition. The Standard establishes two approaches for revenue recognition: at a point in time or over time. The Standard introduces a five-step model for analyzing transactions in order to determine the timing of recognition of the revenue and the amount thereof. In addition, the Standard provides new and broader disclosure requirements than those presently existing. The Group elected to apply the Standard using the cumulative effect approach. Application of the Standard did not have a significant impact on the financial statements and, therefore, the retained earnings as at January 1, 2018 were not adjusted.

Pursuant to the Standard, the Group recognizes revenue when the customer obtains control over the promised goods or services. The revenue is measured according to the amount of the consideration to which the Group expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties.

B. International Financial Reporting Standard IFRS 9 (2014) "Financial Instruments"

Commencing from January 1, 2018 the Group initially applies International Financial Reporting Standard 9 (2014) (hereinafter in this section – "the Standard"), which replaces International Accounting Standard IAS 39 "Financial Instruments: Recognition and Measurement" (hereinafter – "IAS 39"). The Group has chosen to apply the Standard commencing from January 1, 2018, without revision of the comparative data. The impact of application of the Standard on the financial statements was not material and included mainly a decrease of the shareholders' equity in the amount of about $19 million (about $14 million is in respect of the impact of the Standard on the Corporation's investment in ORL).

Set forth below are the main changes in the Group's accounting policies due to application of the Standard along with the anticipated impacts thereof:

Initial recognition and measurement of financial assets and financial liabilities

The Group initially recognizes trade receivables and debt instruments issued on the date they are created. All other financial assets and financial liabilities are initially recognized on the date the Group becomes a party to the instrument's contractual provisions. Generally, a financial asset or financial liability is initially measured at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issuance of the financial asset or financial liability. A trade receivable that does not include a significant financing component is initially measured at the transaction price.

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

### First-time application of new accounting standards (Cont.)

B. International Financial Reporting Standard IFRS 9 (2014) "Financial Instruments" (Cont.)

Financial assets – classification and subsequent measurement

Financial assets are classified upon their initial recognition in one of the following measurement categories: amortized cost; fair value through other comprehensive income – investments in debt instruments; fair value through other comprehensive income – investments in equity instruments; or fair value through profit or loss.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at fair value through profit or loss:

– It is held as part of a business model the objective of which is to hold assets in order to collect the contractual cash flows; and

– The contractual terms of the financial asset give rise on specified dates to cash flows representing solely payments of principal and interest on the principal amount outstanding.

In certain cases, on the initial recognition date of an equity investment that is not held for trade, the Group irrevocably elects to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on the basis of each investment separately.

All financial assets not classified as measured at amortized cost or fair value through other comprehensive income as described above, as well as financial assets designated at fair value through profit or loss, are measured at fair value through profit or loss. Upon their initial recognition, the Group designates financial assets as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Group has balances of trade and other receivables and deposits that are held as part of a business model the objective of which is collecting the contractual cash flows. The contractual cash flows of these financial assets represent solely payments of principal and interest that reflects consideration for the time value of money and the credit risk. Accordingly, these financial assets are measured at amortized cost.

On the date of the first-time application of the Standard, the Group elected to designate the investment in the shares of YTH at fair value through other comprehensive income (under IAS 39 the investment in the shares of YTH was classified as a "financial asset available for sale").

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

### First-time application of new accounting standards (Cont.)

B. International Financial Reporting Standard IFRS 9 (2014) "Financial Instruments" (Cont.)

Financial assets – classification and subsequent measurement (Cont.)

Impairment in value

Credit-impaired financial assets:

At every reporting date, the Group assesses whether financial assets measured at amortized cost and debt instruments at fair value through other comprehensive income are credit-impaired. A financial asset is 'credit-impaired' when one or more events have occurred that have a detrimental impact on the estimated future cash flows of the financial asset.

Presentation of impairment losses:

Provisions for expected credit losses of financial assets measured at amortized cost are deducted from the gross carrying amount of the financial assets in the books.

Impairment losses relating to trade and other receivables, including contract assets, are presented separately in the statements of income. Impairment losses on other financial assets are presented in the "financing expenses" category.

Application of the Standard in connection with impairment of financial assets measured at amortized cost did not have a significant impact on the financial statements.

Financial liabilities – classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortized cost or fair value through profit or loss. A financial liability is measured at fair value through profit or loss if it is classified as held for trade, is a derivative instrument or is designated for measurement as such at the time of its initial recognition. Financial liabilities at fair value through profit or loss are measured at fair value, with the net gains and losses, including any interest expenses, being recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expenses and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on elimination is also recognized in profit or loss. ORL elected to designate part of its traded debentures at fair value through profit or loss.

Change in terms of financial liabilities

According to the Standard, in cases wherein a change in terms or exchange of financial liabilities is immaterial and does not lead to elimination, the new cash flows are to be discounted at the original effective interest rate, with the difference between the present value of the financial liability with the new terms and the present value of the original financial liability being recognized in profit or loss. Application of Standard with respect to changes in terms of financial liabilities did not have a significant impact on the financial statements.

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

**First-time application of new accounting standards (Cont.)**

B. International Financial Reporting Standard IFRS 9 (2014) "Financial Instruments" (Cont.)

Hedge accounting

The Group has elected to apply the new hedge accounting model in IFRS 9. The hedge accounting requirements of IFRS 9 are to be applied on a prospective basis, other than the accounting treatment of the future price element of forward contracts ("forward element") as a hedging cost, which are to be applied retrospectively. As at December 31, 2017, the hedging ratios designated for hedge accounting under IAS 39 qualify for hedge accounting under IFRS 9 and, accordingly, are considered as continuing hedging ratios.

Cash-flow hedge

When a derivative instrument is designated as a cash-flow hedge, the effective portion of the changes in fair value of the derivative is recognized in other comprehensive income, directly to a hedging reserve. The effective portion of changes in the fair value of a derivative that is recognized in other comprehensive income, is limited to the cumulative change in fair value of the hedged item (based on present value), from the creation date of the hedge. The change in fair value in respect of the ineffective portion is recognized immediately in profit or loss.

The Group designates only the change in fair value of the spot element of the forward exchange contract ("spot element") as the hedging instrument in cash-flow hedging relationships. The changes in fair value of the future price element of forward exchange contracts ("forward element") is not included as part of the hedging relationships and are accounted for as a cost of hedging, with the changes being recognized as part of the cost of the hedging reserve.

**New standards not yet adopted**

International Financial Reporting Standard IFRS 16 "Leases" (hereinafter – "the Standard")

The Standard replaces IAS 17 "Leases" and its related interpretations. The Standard's instructions cancel the existing requirement from lessees to classify leases as operating or financing leases. The new Standard presents a unified model for the accounting treatment of all leases according to which the lessee has to recognize a right-of-use asset and a lease liability in its financial statements. The Standard is applicable for annual periods as of January 1, 2019, with the possibility of early adoption. The Group plans to adopt the Standard as from January 1, 2019.

ORL (an associated company) has made early adoption of the Standard commencing from January 1, 2018, using the "cumulative" approach, while adjusting the balance of the retained earnings as at January 1, 2018. Since Israel Corporation does not intend to make early adoption of the Standard, Israel Corporation makes adjustments to ORL's financial statements in its financial statements. For details regarding the impact of the application on ORL's financial statements – see Note 5C(5) below.

## Note 4 – Information on Activity Segments

### A. General

Breakdown of the Group in to reportable operating segments in accordance with the relevant standard derives from Management's reports, which are based on the activity areas of the companies ICL and ORL, as detailed below:

1) **Israel Chemicals Ltd.** – ICL is a leading multi-national company engaged in the area of specialty minerals that operates a unique, integrated business model. ICL competitively extracts raw materials and utilizes sophisticated processing and product formulation technologies to add value to customers in two main end-markets: agriculture and industry (including food additives). ICL's products are used mainly in the areas of agriculture, electronics, food, oil & gas drillings, detergents, cosmetics, pharmaceuticals and vehicles.

   During the first quarter of 2018, the Fire Safety and Oil Additives ($P_2S_5$) businesses of ICL were sold. For additional details – see Note 5B(3) below.

   ICL is an Israeli-resident company that was incorporated in Israel and its shares are registered for trading on the Tel-Aviv Stock Exchange in Israel and the New York Stock Exchange ("NYSE") in the United States.

2) **Oil Refineries Ltd.** (associated company) – ORL and its subsidiaries are industrial companies operating in Israel and are engaged, mainly, in production of fuel products, raw materials for the petrochemical industry and materials for the plastics industry, oils, wax and accompanying products. The factories of ORL's subsidiaries are integrated in ORL's facilities. In addition, ORL provides power and water (mainly electricity and steam) services to a number of industries located near the refinery in Haifa.

   ORL is an Israeli-resident company that was incorporated in Israel and its shares are registered for trading on the Tel-Aviv Stock Exchange in Israel.

   ORL is applying, by means of early adoption, the provisions of IFRS 16 (hereinafter – "the Standard"). Since Israel Corporation is not applying the said Standard by means of early adoption, the Corporation makes adjustments to ORL's statements in its financial statements. The impact of the early adoption of the Standard on ORL's net income in the period of the report is not material. The data included in this note includes the impacts of the early adoption of this Standard.

**B.** Evaluation of the segment's performance as part of the management reports is based on the EBITDA data (after certain adjustments made by the companies).

Adjustments in ORL – recording method deriving from the International Financial Reporting Standards, timing differences of purchase and sale of unhedged inventories, and adjustment of hedged inventories to market value.

Adjustments in ICL – net income attributable to the Corporation's shareholders less depreciation and amortization, net financing expenses, taxes on income and unusual expenses.

Information regarding activities of the reportable segments is set forth in the following tables.

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

### C. Information relating to Business Segments

| | ICL | ORL | Adjustments (1) | Total |
|---|---|---|---|---|
| | Unaudited | | | |
| | $ millions | | | |
| **For the three months ended March 31, 2018** | | | | |
| Sales to external customers | **1,404** | **1,646** | **(1,646)** | **1,404** |
| EBITDA for the period (2) | **251** | **120** | **(122)** | **249** |
| Depreciation and amortization | **97** | **45** | **(44)** | **98** |
| Financing income | **(25)** | **(9)** | **(1)** | **(35)** |
| Financing expenses | **40** | **35** | **8** | **83** |
| Share in income of equity-accounted investees | **(1)** | **–** | **(23)** | **(24)** |
| Extraordinary or non-recurring income and adjustments | **(831)** | **(40)** | **36** | **(835)** |
| | **(720)** | **31** | **(24)** | **(713)** |
| Income before taxes | **971** | **89** | **(98)** | **962** |
| Taxes on income | **45** | **15** | **(16)** | **44** |
| Income for the period | **926** | **74** | **(82)** | **918** |

| | ICL | ORL | Adjustments (1) | Total |
|---|---|---|---|---|
| | Unaudited | | | |
| | $ millions | | | |
| **For the three months ended March 31, 2017** | | | | |
| Sales to external customers | 1,295 | 1,205 | (1,205) | 1,295 |
| EBITDA for the period (2) | 218 | 74 | (76) | 216 |
| Depreciation and amortization | 94 | 36 | (34) | 96 |
| Financing income | (77) | (1) | (30) | (108) |
| Financing expenses | 91 | 48 | 3 | 142 |
| Share in losses (income) of equity-accounted investees | (1) | 1 | (6) | (6) |
| Extraordinary or non-recurring expenses (income) and adjustments | 8 | (43) | 49 | 14 |
| | 115 | 41 | (18) | 138 |
| Income before taxes | 103 | 33 | (58) | 78 |
| Taxes on income | 42 | 14 | (13) | 43 |
| Income for the period | 61 | 19 | (45) | 35 |

(1) Most of the adjustments stem from the ORL segment, which is an associated company.
(2) See Section B above.

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

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

| | ICL | ORL | Adjustments (1) | Total |
|---|---|---|---|---|
| | $ millions | | | |
| **2017:** | | | | |
| Total sales to external customers | 5,418 | 5,624 | (5,624) | 5,418 |
| EBITDA (2) | 1,059 | 552 | (558) | 1,053 |
| Depreciation and amortization | 418 | 156 | (149) | 425 |
| Financing income | (105) | (21) | (44) | (170) |
| Financing expenses | 229 | 157 | (4) | 382 |
| Share in income of associated companies | – | – | (74) | (74) |
| Unusual or one-time expenses and adjustments | 12 | (68) | 78 | 22 |
| | 554 | 224 | (193) | 585 |
| Income before taxes | 505 | 328 | (365) | 468 |
| Taxes on income | 158 | 66 | (62) | 162 |
| Income for the year | 347 | 262 | (303) | 306 |

(1) Most of the adjustments stem from the ORL segment.
(2) See Section B above.

### D. Sales by Business Units

| | 1–3/2018 | | 1–3/2017 | | 1–12/2017 | |
|---|---|---|---|---|---|---|
| | $ millions | % of sales | $ millions | % of sales | $ millions | % of sales |
| Industrial products | 317 | 22 | 310 | 24 | 1,193 | 22 |
| Advanced additives | 177 | 13 | 169 | 13 | 877 | 16 |
| Food Specialties | 167 | 12 | 138 | 11 | 596 | 11 |
| Potash & Magnesium | 353 | 25 | 283 | 22 | 1,383 | 26 |
| Phosphate Commodities | 265 | 19 | 292 | 22 | 1,052 | 19 |
| Specialty Fertilizers | 221 | 16 | 192 | 15 | 692 | 13 |
| Other and eliminations | (96) | (7) | (89) | (7) | (375) | (7) |
| Total | **1,404** | **100** | 1,295 | 100 | 5,418 | 100 |

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

### E. Sales by Geographic Areas

| | 1–3/2018 | | 1–3/2017 | | 1–12/2017 | |
|---|---|---|---|---|---|---|
| | $ millions | % of sales | $ millions | % of sales | $ millions | % of sales |
| Europe | 583 | 42 | 534 | 41 | 1,918 | 35 |
| Asia | 334 | 24 | 282 | 22 | 1,342 | 25 |
| North America | 267 | 19 | 294 | 23 | 1,175 | 22 |
| South America | 119 | 8 | 98 | 8 | 666 | 12 |
| Rest of the world | 101 | 7 | 87 | 6 | 317 | 6 |
| Total | **1,404** | **100** | 1,295 | 100 | 5,418 | 100 |

### F. Sales by Main Countries

| | 1–3/2018 | | 1–3/2017 | | 1–12/2017 | |
|---|---|---|---|---|---|---|
| | $ millions | % of sales | $ millions | % of sales | $ millions | % of sales |
| United States | 245 | 18 | 276 | 21 | 1,091 | 20 |
| China | 166 | 12 | 145 | 11 | 724 | 13 |
| United Kingdom | 117 | 8 | 89 | 7 | 328 | 6 |
| Brazil | 106 | 8 | 77 | 6 | 594 | 11 |
| Germany | 104 | 7 | 98 | 8 | 378 | 7 |
| France | 74 | 5 | 71 | 5 | 265 | 5 |
| Spain | 72 | 5 | 79 | 6 | 264 | 5 |
| Israel | 48 | 3 | 52 | 4 | 171 | 3 |
| Italy | 42 | 3 | 40 | 3 | 121 | 2 |
| India | 40 | 3 | 37 | 3 | 200 | 4 |
| Other | 390 | 28 | 331 | 26 | 1,282 | 24 |
| Total | **1,404** | **100** | 1,295 | 100 | 5,418 | 100 |

## Note 5 – Additional Information

### A. The Corporation

1. On March 29, 2018, the Corporation completed, as part of a shelf offer prospectus, issuance of two new series of registered debentures of NIS 1 par value each: Series 12, in unlinked shekels, having an aggregate par value of about NIS 554 million, and Series 13, linked to the U.S. dollar, having an aggregate par value of about NIS 287 million. The proceeds of the issuance, net of the issuance costs, amounted to about NIS 834 million (about US$238 million). The debentures were registered for trading on the Tel-Aviv Stock Exchange. On March 27, 2018, Standards & Poor's Maalot (hereinafter – "S&P") gave notice of provision of a rating of ilA to the above-mentioned debentures. On the date of the issuance, the Corporation was rated ilA/Stable.

   The debentures (Series 12) and (Series 13) are repayable in 6 unequal annual payments, which are to be paid on September 30 of each of the years 2021 through 2026, where in the first payment 10% of the par value of the principal is to be paid, the second, third, fourth and fifth payments are at the rate of 17.5% of the principal amount, while in the sixth (final) payment, 20% of the principal amount is to be repaid.

   The debentures (Series 12) bear fixed annual interest at the rate of 3.35% and are not linked to the CPI. The debentures (Series 13) bear fixed annual interest at the rate of 5.6% and are linked to the U.S. dollar. The interest on the outstanding balance of the two series of debentures is to be paid in semi-annual payments on March 31 and September 30, where the first interest payment is to be made on September 30, 2018, and the last interest payment is to be made together with the final principal payment on September 30, 2026.

   In March 2018, at the time of selling the debentures, the Corporation entered into SWAP transactions to exchange principal and interest of the debentures (Series 12), in order to reduce the currency and interest exposure. In respect of these transactions, the Corporation elected to apply cash-flow hedge accounting principles.

   The debentures (Series 12) and (Series 13) are not secured and include customary terms and conditions with respect to a case of insolvency, along with a mechanism for adjusting the interest rate in a case of a reduction of the rating of the debentures (the interest rate will increase by 0.25% for every decline in the rating level commencing with a rating of ilA and up to a maximum cumulative rate of 1.75%) (hereinafter – "the Maximum Cumulative Rate"), not to place a lien on more than 500 million shares of ICL and on more than 897 million shares of ORL under certain circumstances, financial covenants, conditions for distribution of dividends and additional conditions as appearing in the trust indentures.

   <u>Set forth below are the financial covenants</u>

   The Corporation's minimum shareholders' equity may not drop below $360 million.

   The ratio between the Corporation's minimum shareholders' equity and the Corporation's total assets based on its separate-company (solo) financial statements net of the liquid solo assets (cash and short-term deposits) plus the net financial liabilities of the Headquarters Companies may not drop below 20%.

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

**A. The Corporation (Cont.)**

2. On March 22, 2018, the Corporation's Board of Directors decided to distribute a dividend in the amount of $120 million – about $15.74 per share. The dividend was distributed subsequent to the date of the report on April 23, 2018.

3. On March 19, 2018, the General Meetings of the holders of the debentures (Series 10 and 11) (hereinafter – "the Debentures") approved for each series separately, an amendment to the trust indentures (hereinafter – "the Amendment") with reference to certain conditions for distribution of dividends. As part of the Amendment, the interest rates for each series was updated by 0.2% referring to the unpaid principal as at the date of entry of the Amendment into effect and up to full repayment of the outstanding balance of the Debentures, and a one-time commission will be paid, at the rate of 0.25% of the par value of the outstanding balance of the Debentures as at the date of entry of the Amendment into effect. In light of update of the interest, as stated above, in the period of the report the Corporation recorded financing expenses, in the amount of about $4.5 million.

4. On January 2, 2018, Kenon repaid the full amount of the loan (principal and interest) granted to it by the Corporation, and accordingly the amount of about $240 million was received by the Corporation. For additional details – see Note 11 to the annual consolidated financial statements.

5. Further to that stated in Note 10.B to the annual financial statements, the Corporation continued making a "physical settlement" pursuant to the terms of the Financial Transaction, and as a result, during the period of the report, the number of shares held by the Corporation declined by a total of about 2,287 thousand shares, and as at March 31, 2018, the rate of the Corporation's holdings in ICL's issued share capital was about 47.4%, compared with 47.6% at the beginning of the year. As at the date of the report, the balance of the shares remaining under the "physical settlement" was about 19 million shares, and the balance of the period of the Financial Transaction is about 1.5 years. As a result of the decline in the rate of holdings, the Corporation recognized an increase in the non-controlling interests, in the amount of about $6 million, and at the same time an increase in the retained earnings, in the amount of about $3 million, and an increase in the translation reserve, in the amount of about $1 million, stemming from the difference between the "physical settlement" plus closing out of the derivative that stood against it, and the increase in the non-controlling interests. Subsequent to the date of the report, on May 24, 2018, closing out of the Financial Transaction was completed with reference to an additional quantity of about 2,287 thousand shares of ICL by means of a "physical settlement" and the rate of the Corporation's holdings in ICL's issued share capital as at the aforesaid date was about 47.2%.

## Note 5 – Additional Information (Cont.)

### A. The Corporation (Cont.)

6. As stated in Note 16E(1) to the annual financial statements, during the period of the report the Corporation and the Headquarters Company made early repayment of loans, in the aggregate amount of $200 million, and a deposit was released, in the amount of about $8 million, which was deposited as security in favor of a certain loan, as stated. In addition, subsequent to the date of the report, on May 10, 2018, the Corporation made early repayment of a loan, in the amount of $193.3 million, with a consortium of banks, as mentioned in Note 16E to the annual financial statements. As at the date of the report, a provision was recorded, in the amount of about $1.7 million, in respect of an early repayment commission.

7. Further to that stated in Note 6A(5) below, in respect of a derivative claim in connection with bonuses received by officers (former and present) of the Corporation from the controlling shareholders relating to completion of the "split-up" transaction, upon receipt of the judgment from the District Court approving the compromise agreement for ending the proceedings, the Corporation recorded the amount of about $9 million in the "other income" category in the statement of income, which reflects the amounts to which the Corporation is entitled net of the payment to the plaintiff and payment of the fees of the plaintiff's representatives.

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

1. Non-marketable options

| Grant date | Entitled employees | Number of instruments (millions) | Issuance details | Instrument terms | Vesting conditions | Expiration date |
|---|---|---|---|---|---|---|
| March 6, 2018 | Officers and senior employees | 5.6 | An issuance of non-marketable and non-transferrable options, for no consideration, under the 2014 Equity Compensation Plan to 509 ICL officers and senior employees in Israel and overseas. | Upon exercise, each option may be converted into one ordinary share of NIS 1 par value of the Company. | 3 equal tranches: (1) one third at the end of 12 months after the grant date; (2) one third at the end of 24 months after the grant date; (3) one third at the end of 36 months after the grant date. | March 6, 2025 |

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

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

1. Non-marketable options (Cont.)

| Additional Details | March 2018 Options Grant |
|---|---|
| Share price | NIS 15.15 ($4.38)* |
| CPI-linked exercise price | NIS 14.52 ($4.20)* |
| Expected volatility | 28.90% |
| Expected life of options (in years) | 7 |
| Risk-free interest rate | 0.03% |
| Total fair value | $8 million |
| Dividend – exercise price | Reduced on the "ex-dividend" date by the amount of the dividend per share |

* The share price and exercise price are translated based on the exchange rate on the grant date for convenience purposes only.

The options issued to the employees in Israel are covered by the provisions of Section 102 of the Israeli Income Tax Ordinance. The issuance will be performed through a trustee under the Capital Gains Track. The fair value of the options was estimated using the Black & Scholes model for pricing options. The exercise price is linked to the CPI that is known on the date of payment, which is the exercise date. In a case of distribution of a dividend by the Company, the exercise price is reduced on the "ex-dividend" date, by the amount of the dividend per share, based on the amount thereof in NIS on the effective date.

The expected volatility was determined on the basis of the historical volatility of ICL's share prices. The risk-free interest rate was determined on the basis of the yield to maturity of shekel-denominated Israeli Government debentures, with a remaining life equal to the anticipated life of the options.

The cost of the embedded benefits of the said plans will be recognized in the income statements over the vesting period. The cost of grants complying with ICL's policy relating to "Rule 75" (accelerated vesting period for employees which their age plus their years of employments in the Company exceed 75) is recognized in the income statements at the grant day.

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

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

2. Restricted shares (Cont.)

| Grant date | Entitled employees | Number of instruments (millions) | Additional information | Instrument terms | Vesting conditions | Fair value on grant date ($ millions) |
|---|---|---|---|---|---|---|
| March 6, 2018 | Officers and senior employees | 1.7 | The value of the restricted shares was determined according to the closing price on the TASE on the most recent trading day preceding the grant date. | An issuance for no consideration, under the 2014 Equity Compensation Plan. | 3 equal tranches: (1) one third at the end of 12 months after the grant date; (2) one third at the end of 24 months after the grant date; (3) one third at the end of 36 months after the grant date. | 8 |

3. Further to Note 5 to the annual financial statements, on March 28, 2018, ICL completed the sale transaction of the Fire Safety and Oil Additives businesses, for a consideration of $1,010 million, of which $953 million is in cash and $57 million is in the form of preferred equity certificates issued by a subsidiary of the buyer. As a result of that stated above, as part of the financial statements for the first quarter of 2018, ICL recorded a capital gain, net of transaction expenses, of $841 million, which is presented under "other income" in the consolidated statement of income.

Impact of sale of the businesses

| | As at March 31, 2018 ($ million) |
|---|---|
| Cash and cash equivalents | 1 |
| Trade and other receivables | 34 |
| Inventory | 59 |
| Property, plant and equipment | 26 |
| Intangible assets | 64 |
| Trade payables and other current liabilities | (28) |
| Deferred tax liabilities | (3) |
| **Net asset and liabilities, net** | **153** |
| | |
| Consideration received in cash * | 965 |
| Taxes paid | (33) |
| Less cash belonging to the activities | (1) |
| **Net cash received** | **931** |

* The consideration includes $12 million VAT payments of the buyer that was paid by ICL in April 2018. In addition to the consideration received in cash, preferred equity certificates in the amount of $57 million were also received.

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

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

4. In January 2018, in light of ICLs decision to discontinue the production of potash at ICL UK and transition to full production of Polysulphate in the second half of 2018, a plan was approved for personnel reduction, following which ICL recorded an increase of about $7 million in the provision for employee benefits in its financial statements for the first quarter of 2018.

5. On March 21, 2018, the credit rating company Fitch Ratings reaffirmed ICL's international credit rating, BBB– with a stable rating outlook. Subsequent to the date of the report, on May 10, 2018, the rating company Standard & Poor's Global reaffirmed ICL's international credit rating of BBB– with a stable rating outlook, and S&P Maalot reaffirmed ICL's rating (ilAA) with a stable rating outlook.

6. Subsequent to the date of the report, on May 14, 2018, ICL reported with respect to a private issuance of new, unsecured, long-term senior debentures for 20 to 30 years ("the Private Issuance"), and at the same time regarding a cash tender offer ("the Tender Offer") for all or part of ICL's senior debentures bearing interest of 4.5% and scheduled for repayment in 2024 ("the 2024 Debentures"). The 2024 Debentures were issued to institutional investors on December 2, 2014, for a consideration of a cumulative principal amount of $800 million. The Tender Offer was intended to permit ICL to manage the debt level and to improve its debt repayment profile, this being as part of the ongoing management of its liabilities. Subsequent to the date of the report, on May 22, 2018, ICL reported regarding the results of the Tender Offer for its outstanding debentures, about $600 million par value of debentures (2024) were offered as required for sale and ICL agreed to acquire all of the debentures (2024) offered for sale for an aggregate consideration of about $605 million. The expected payment date is May 29, 2018. After payment of the consideration, the aggregate amount of about $200 million par value of debentures (2024) that were not acquired as part of the Tender Offer will continue to be traded in the continuous institutional system of the Tel-Aviv Stock Exchange Ltd. to institutional investors.

   In addition, subsequent to the date of the report, on May 23, 2018, ICL gave notice of pricing of a private issuance to institutional investors, in accordance with Rule 144A and Regulation S of the U.S. Securities Act of 1933, as amended ("the U.S. Securities Law"), of senior, unsecured debentures, in the cumulative amount of U.S.$600 million, for repayment in 2038 ("the Debentures"), bearing interest at the rate of 6.375%, which is to be paid twice a year up to the repayment date, issued at a price of 100% and at a yield of 6.375%, and the principal is to be repaid in full in one lump-sum payment on the repayment date. Completion of the issuance is expected to take place on May 31, 2018, subject to customary closing conditions, including registration of the debentures for trading in the continuous institutional system of the Tel-Aviv Stock Exchange Ltd. ICL intends to use the net proceeds received from the issuance to partially replace cash on hand, or repay short-term borrowings and its revolving credit facility, used to repurchase the senior debentures, which bear interest at the rate of 4.5% and that are repayable in 2024 as part of the Tender Offer, and to pay related commissions and expenses, including applicable tender premiums and any accrued interest, and to use any remaining net proceeds for its general business purposes, which could include debt repayment, capital expenditures, investments and acquisitions.

## Note 5 – Additional Information (Cont.)

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

6. (Cont.)

As a result of the repurchase of the debentures in the tender offer, ICL will recognize an expense in the second quarter of 2018 in an amount equal to the difference between the consideration paid for the Debentures acquired and their book value as reflected in ICL's financial statements.

### C. Oil Refineries Ltd. (hereinafter – "ORL")

1. As detailed in Note 9C(2) to the annual financial statements, in the period of the report the General Meeting of the shareholders of ORL approved ORL's undertaking in an agreement for acquisition of natural gas from Energean. The agreement is subject to fulfillment of preconditions which, as at the approval date of ORL's financial statements, some of which had not been fulfilled yet.

2. As at March 31, 2018, ORL and its subsidiaries, Carmel Olefins and Gadiv, were in compliance with the financial covenants determined for them in connection with their liabilities.

3. Subsequent to the date of the report, on April 3, 2018, Standard & Poor's Maalot updated the rating of ORL and of ORL's public debentures to ilA–, with a stable rating outlook.

4. On January 14, 2018, the General Meeting of the shareholders approved, with a special majority, distribution of a dividend in the amount of $65 million, and on January 31, 2018, the dividend was paid (the share of Israel Corporation in the dividend is about $21.5 million). The dividend is out of earnings that are not entitled to benefits under the Law for Encouragement of Capital Investments, 1959.

5. Further to that stated in Note 9C(5) to the annual financial statements, commencing from January 1, 2018 ORL is making early application of International Financial Reporting Standard IFRS 16 "Leases" (hereinafter – "the Standard"), which replaces International Accounting Standard IAS 17 and its related Interpretations. Israel Corporation is not making early application of the Standard. The impact on ORL's net income for the period of the report as a result of application of the Standard is not significant.

   ORL elected to apply the transitional rule whereby for the said leases, as at January 1, 2018 a lease liability was recognized, in the amount of about $ 99 million, which was calculated based on the present value of the future lease payments discounted at the incremental interest rate of the relevant lessee of ORL as at this date, corresponding to the remaining lease period (weighted-average of about 3.5%), and at the same time recognized a "usage right asset" in the same amount. Accordingly, application of the Standard had no impact on the balance of ORL's retained earnings as at January 1, 2018.

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

**C. Oil Refineries Ltd. (hereinafter – "ORL") (Cont.)**

5. (Cont.)

In addition, commencing from the initial application date of the Standard, depreciation expenses are recognized in respect of usage right assets (in place of the lease expenses included in the EBITDA), which are mainly presented in the cost of sales, and financing expenses relating to the lease liability. The said impact is reflected in an increase in ORL's consolidated EBITDA in the first quarter of 2018 of about $7 million.

As a result of the initial application, there were no significant changes in ORL's main financial ratios or its ability to comply with the financial covenants it is subject to under the financing agreements and trust indentures.

ORL has made early adoption of the provisions of IFRS 16. Since Israel Corporation has not made early adoption of the Standard, as stated, Israel Corporation makes adjustments to the statements of ORL in its financial statements. The impact of the early adoption of the Standard on ORL's net income in the period of the report is not significant. The data set forth below includes impacts of early adoption of the provisions of the Standard, as stated.

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

**C. Oil Refineries Ltd. (hereinafter – "ORL") (Cont.)**

Condensed data regarding associated company – ORL

Condensed data regarding the interim statement of position:

| | March 31 2018 | March 31 2017 | December 31 2017 |
|---|---|---|---|
| | (Unaudited) | (Unaudited) | (Audited) |
| | | $ millions | |
| Main location of activities | | ISRAEL | |
| Rate of ownership rights | **33.06%** | **37.08%** | **33.06%** |
| Current assets | **1,644** | 1,238 | 1,604 |
| Non-current assets | **2,481** | 2,395 | 2,411 |
| Current liabilities | **(1,166)** | (1,102) | (1,204) |
| Non-current liabilities | **(1,742)** | (1,569) | (1,607) |
| Total net assets (100%) | **1,217** | 962 | 1,204 |

Condensed data regarding the interim statement of income:

| | For the three months ended March 31 2018 | For the three months ended March 31 2017 | For the year ended December 31 2017 |
|---|---|---|---|
| | (Unaudited) | (Unaudited) | (Audited) |
| | | $ millions | |
| Revenues | **1,646** | 1,205 | 5,624 |
| Net income | **74** | 19 | 262 |
| Other comprehensive income (loss) | **12** | (9) | (11) |
| Total comprehensive income for the period | **86** | 10 | 251 |

## Note 6 – Contingent Liabilities, Commitments, Concessions and Other

Further to that stated in Note 20 to the annual financial statements and except as stated below, there were no significant changes in the period of the report in the contingent liabilities, commitments and concessions.

### A. The Corporation

(1) On October 16, 2013, V-Cars filed a monetary claim in the District Court in Tel-Aviv (essentially identical to the claim filed in the United States against the Corporation that was rejected) against the Corporation. On dates from February 28, 2016 through March 2, 2016, four consecutive days of proof hearings were held at the conclusion of which the case was set for written summations. The plaintiff and the Corporation have submitted their summations in the case. The Corporation estimates, based on the opinion of its legal advisors, that the chances the claim will succeed are low and, in any event, it believes, based on the opinion of its legal advisors, that the chance the Corporation will be required to pay the plaintiff a significant amount is remote.

(2) On August 5, 2014, a request was filed in the District Court in Tel-Aviv–Jaffa (the Economics Division) for certification of a claim as a derivative claim (hereinafter – "the Request for Certification"), by a Corporation shareholder that allegedly holds 19 of the Corporation's shares (hereinafter – "the Requesting Party") against the Corporation, ZIM, Messrs. Gideon Langholz, Oded Degany, Zehavit Cohen and Michael Bricker (who serve as Corporation directors) and against Millennium Investments Elad Ltd. (hereinafter – "Millennium") and Mr. Idan Ofer (hereinafter – "the Respondents"). A copy of the statement of claim was attached to the Request for Certification. On June 26, 2016, a Court decision was rendered whereby the Request for Certification was rejected (hereinafter – "the Court Decision"). On September 25, 2016, Requesting Party filed an appeal of the court decision to the Supreme Court. On July 6, 2017, the appellant filed the summations on his behalf. Up to November 15, 2017 the respondents filed their summations. The date for submission of the response summations was set at December 4, 2017. The hearing that was scheduled for June 25, 2018, was cancelled, and in its place a hearing was scheduled for February 4, 2019 for completion of the oral contentions. At this early and preliminary stage of the appeal, it is difficult to estimate the chances of these proceedings and their risks. In any event, as usual, a derivative claim (even if it is certified as a derivative claim), as well as the appeal of the rejection of the request for certification of the claim as a derivative claim, does not pose a significant threat of a liability for a significant monetary amount on the part of the Corporation (this is the rationale forming the basis for this type of claim), and it appears that this is also true in this case.

(3) On December 31, 2014, a request for certification of a claim as a derivative claim was filed in the District Court of Tel-Aviv–Jaffa (Economic Division) ("the Request for Certification"), by two shareholders who allegedly hold together 42 of the Corporation's shares (hereinafter – "the Plaintiffs"), against the Corporation, Messrs. Gideon Langholz, Oded Degany, Zehavit Cohen and Michael Bricker (who serve as Corporation directors) (hereinafter – "the Directors") and against Trigger Foresight (a limited partner) (hereinafter – "Trigger Foresight"). A copy of the statement of claim was attached to the Request for Certification. On December 10, 2015, a preliminary hearing was held on the request for the approval and thereafter the case was set for hearings of the proofs.

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

**A. The Corporation (Cont.)**

(3) (Cont.)

The Plaintiffs filed a request with the Court for discovery of documents. On May 15, 2016, the Court's decision was received wherein it determined that there is no place for hearing the request for discovery of documents prior to hearing the Request for Certification. On June 13, 2016, the Plaintiffs filed a request for leave to appeal in connection with the Court's decision to reject the request for discovery of documents (hereinafter – "the Request for Leave to Appeal"). On August 9, 2016, a notice and request was filed on behalf of the Plaintiffs and Trigger Foresight whereby they have reached agreements with each other. On October 26, 2016, a decision was rendered by the Supreme Court on the Request for Leave to Appeal whereby, in brief, the Request for Leave to Appeal was accepted in part and it was ruled that protocols of the Special Committee for the period determined are to be submitted to the District Court in order to determine whether to allow reading of the documents while a balancing is to be made between the relevance of these documents to that contended in the Request for Leave to Appeal and the claims of confidentiality raised by the Corporation. On November 8, 2016, a notification was filed on behalf of Israel Corporation with respect to delivery of documents (confidential documents) for the Court's perusal, to which were attached (in a sealed envelope for the Court's perusal only) the required protocols, and the parts the Corporation believes are confidential – were marked as such. On January 17, 2017, the Court's decision was rendered, which accepted the Corporation's position regarding application of the attorney/client privilege to the documents delivered to the Court, as noted above, and the Court determined that under the circumstances of the matter there is no justification to negate the privilege. Accordingly, the Court instructed the Corporation to transfer the said documents for perusal by the requesting parties, while "blacking out" the confidential sections protected by the privilege. On March 19, 2017, the Plaintiffs filed a request to summon witnesses, wherein they requested the Court to summon Prof. Asher Blass for questioning, who prepared the opinion regarding the debt arrangement that is the subject of the request for certification of Antropi Investigation Services Ltd., and Mr. Nir Gilad. On May 9, 2017, the Court accepted the request to summon witnesses and instructed that Prof. Asher Blass and Mr. Nir Gilad be summoned to appear. On June 28, 2017, July 3, 2017 and July 19, 2017 hearings were held on the proofs. Additional hearings on the proofs were scheduled for November 2018.

At this early and preliminary stage of the proceeding, it is difficult for the Corporation, based on the opinion of its legal advisors, to assess the chances of the proceeding and its risks. In any event, a derivative claim (even if it is ultimately approved as a derivative claim) does not create actual monetary exposure to the Corporation itself.

(4) On January 15, 2015, a request was filed on behalf of Mr. Mordochai Gavrielli (hereinafter – "the Plaintiff"), as part of a proceeding for certification of a claim as a class action, in the amount of NIS 32.3 million (hereinafter – "the Request"), against the Corporation and, based on that alleged in the Request, against the members of the Corporation's Board of Directors, the Corporation's CEO on the relevant dates, the Corporation's CFO on the relevant dates (hereinafter – "the Officers") and the Corporation's controlling shareholder (hereinafter jointly and severally – "the Respondents").

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

**A. The Corporation (Cont.)**

(4) (Cont.)

The Plaintiff held 5 of the Corporation's shares between the dates October 14, 2014 through December 3, 2014. As part of an Immediate Report of the Corporation dated December 31, 2014, a notification was provided whereby there was a clerical error in the Report of the Board of Directors as at September 30, 2014, which was published on November 25, 2014 (hereinafter – "the Board of Directors"). Pursuant to that alleged in the Request, the clerical error is a "significant error in description of the financial position of the subsidiary", and this error caused the Plaintiff and additional shareholders, who bought and sold their shares during the period between November 25, 2014 (prior to the start of trading) through December 31, 2014 (after the close of trading) (hereinafter – "the Alleged Misleading Period"), to sustain significant harm. On January 5, 2016, a preliminary hearing on the claim was held. On May 17, 2016, a court hearing was held wherein the Plaintiff (regarding his affidavit), the expert on its behalf (regarding his opinion) and a declarant on behalf of the Corporation (on his affidavit) were questioned. On July 18, 2016, the requesting party filed summations on his behalf and on November 14, 2016, the respondents filed summations on their behalf, and on November 22, 2016, the requesting party submitted response summations. On December 6, 2017, a decision was rendered by the District Court (the Hon. D. Karat-Meir) with respect to the request for certification of the claim as a class action. The Court accepted the request and approved filing of a class action on behalf of a defined and limited group of shareholders of Israel Corporation, who according to the contention suffered harm due to the clerical error.

On December 20, 2017, a decision was rendered by the District Court (the Hon. Magen Altuvia) wherein the parties were requested to provide their positions regarding the Court's suggestion to enter into a time-limited reconciliation proceeding before the Hon. Tzvi Zilbertal (retired) and/or any other mediator. On December 31, 2017, notifications were filed on behalf of both the requesting party and the respondents, which included the following agreements: the parties agree to carry on a reconciliation proceeding (for a limited period of time) before the Hon. Tzvi Zilbertal (retired). The plaintiff agreed to extend the date for purposes of filing a request for a re-hearing (on behalf of the respondents) such that it will be filed within 30 days after either of the parties notifies the Court that the lack of success of the reconciliation proceeding (to the extent it does not succeed). On December 31, 2017, a further decision was rendered by the District Court (the Hon. Magen Altuvia) instructing (further to the notifications of agreement on behalf of the parties) to transfer the dispute to a time-limited reconciliation proceeding before the Hon. Tzvi Zilbertal (retired), as well as with respect to extension of the hearing dates until another decision is rendered. Subsequent to the date of the report, on February 13, 2018, the first reconciliation meeting was held, and additional meetings were scheduled. The Corporation included a provision that properly reflects, in the estimation of the Corporation's management, the cost that will be paid with a probability of more than 50%. The Corporation has insurance coverage for its liability stemming from the claim, subject to customary exceptions in the policy and, accordingly, an indemnification asset was recognized.

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

**A. The Corporation (Cont.)**

(5) On July 9, 2015, a request for certification of a claim as a derivative claim (hereinafter – "the Request for Certification") was filed in the District Court in Tel-Aviv–Jaffa (Economics Division) by Ms. Yehudit Langa, who alleges to hold shares of the Corporation (hereinafter – "the Claimant"), against the Corporation, against Mr. Idan Ofer and Millennium Investments Elad Ltd. (hereinafter, both together – "the Controlling Shareholders"), and against the Corporation's form CEO and 3 additional officers (hereinafter – "the Officers"). A copy of the statement of claim was attached to the Request for Certification. On April 30, 2017, the Court accepted the Request for Certification and approved maintaining the claim against the Officers and against the Controlling Shareholders. The Court determined, among other things, that provision of direct remuneration from the Controlling Shareholder to the Officers "breaches the balance" the legislator wished to achieve by means of the provisions enacted as part of Amendment No. 20 to the Companies Law, 1999 ("Amendment No. 20" and "the Companies Law"), and causes a situation wherein the Officers to which remuneration was promised, as stated, are in a position of a conflict of interests. Accordingly, the Court determined that the Corporation was required to bring the bonuses for approval of its competent authorities under the procedure provided in the Companies Law ("as worded in Amendment No. 20") for approval of the Corporation's remuneration policy. Therefore, the Court approved maintaining the claim against the Officers, and against the Controlling Shareholders, which respect to whom it was determined that they have a duty to return the bonuses to the Corporation's accounts "jointly and severally" with the Officers. The Court ruled that the Officers and the Controlling Shareholders are to bear the Claimant's expenses in the Request for Certification stage, in the amount of NIS 60,000. In addition, dates were set for commencement of the proceedings on the claim in the name of the Corporation by the Claimant. On May 23, 2017, the representative of the Officers notified the Court that negotiations are being carried on regarding the possibility of settling the dispute that is the subject of the proceeding by means of consent. On December 14, 2017, the requesting parties and the officers filed a request with the Court to approve a compromise agreement, whereby they notify that a compromise agreement was signed between them, for purposes of payment of monies to the Corporation against final and unequivocal settlement of the proceedings (hereinafter – "the Request for Approval of the Compromise Agreement"), and requested from the Court to approve the compromise agreement, on the basis of the reasoning in the request and in accordance with the procedure provided in Section 202 of the Companies Law. The Court scheduled, after receipt of the position of the State Attorney General in connection with the compromise agreement, a hearing with respect to the compromise agreement. Subsequent to the date of the report, on March 18, 2018, a hearing was held and on that date a court decision was issued by the District Court approving the compromise agreement for ending the proceedings. Pursuant to the compromise agreement (in brief), the officers of the Corporation will transfer the aggregate amount of NIS 45 million in order to conclude the dispute that is the subject of proceeding, on the dates stipulated in the compromise agreement. Pursuant to the compromise agreement, against execution of the payments all the contentions, causes of action and claims of the Corporation (including the Claimant) against the respondents in the proceeding will be cancelled with reference to all the contentions, causes of action and claims raised in the request for certification of the claim, including those relating to the grants.

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

**A. The Corporation (Cont.)**

(5) (Cont.)

In addition, in the compromise agreement an award was provided to the Claimant and attorney's fees of her representative, in the aggregate amount of NIS 7.3 million, which is to be paid as part of the amount to be paid to the Corporation, as stated, and on the dates determined in the Court's decision. The amount of the award was determined taking into account the fact that this is an innovative decision, the likes of which have not yet found their way into the court decisions of the State of Israel.

(6) In September 2013, the District Court in Lod issued a fixed liquidation order against Better Place, which is incorporated in Delaware in the United States, in which the Corporation holds about 30% of its shares. This liquidation order was recognized during October 2013 by the competent court in Delaware. As far as we know, a liquidation order has also been issued against subsidiaries of Better Place. In March 2014, the Corporation submitted to the Liquidators of Better Place a debt claim in the amount of about $72 million in respect of its investment in subordinated convertible notes issued by Better Place in November 2012 and February 2013. On September 2, 2014, the decision of the liquidators of Better Place was received whereby the debt claim submitted by the Corporation is rejected. No appeal of the decision on the debt was filed. Former officers of the Corporation have been summoned for investigation by the Liquidators of Better Place. Further that stated above, on May 23, 2016, a claim was filed in the Central District Court of Lod by the Liquidators of Better Place, in the amount of NIS 200 million, against, among others, a number of position holders in Better Place, including 3 former officers of the Corporation, in connection with their service in Better Place and actions or omissions of the defendants at the time of the liquidation. To the best of its knowledge, the Corporation is not one of the defendants. Statements of defense in the case have not yet been filed. On October 22, 2017, a pre-trial hearing held, whereat it was determined, among other things, that some of the defendants, including the said officers, are to file, no later than December 10, 2017, a request for summary dismissal that will relate solely to the contention that the claim is not appropriate since they have the defense of the rule of business judgment under Israeli law.

On December 13, 2017, some of the defendants, including the said officers, filed a request for summary dismissal, as stated. The Liquidators of Better Place filed their response to the request for summary dismissal in March 2018, and subsequent to the date of the report, on April 15, 2018, the reply of the defendants to response of the Liquidators was submitted. Subsequent to the date of the report, on April 22, 2018, the Liquidators of Better Place filed a request with the Court to transfer the hearing of the claim to another party (in place of the Hon. Judge Groskopf who was appointed to serve on the Supreme Court) and subsequent to the date of the report, on April 29, 2018, an objection to the request was filed on behalf of the defendants, as stated, and on May 3, 2018, the response of Liquidators to the request was submitted. Decisions have not yet been rendered by the Court with respect to any of the requests. It is further noted that, to the best of the Corporation's knowledge, on February 5, 2018, the Bankruptcy Court in Delaware (the court in the place of incorporation of Better Place) rejected a request for summary dismissal filed by some of the defendants, including three of the former officers of the Corporation, based on the contention that Delaware law does not have a foundation for the cause of action in the claim filed against them.

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

**A. The Corporation (Cont.)**

(7) On January 10, 2018, a request was filed in the District Court in Tel-Aviv–Jaffa, for certification of a derivative claim in the name of Oil Refineries Ltd. (hereinafter – "ORL") against former directors of ORL, directors currently serving, O.P.C. Energy Ltd. (hereinafter – "OPC"), O.P.C. Rotem Ltd., O.P.C. Hadera Ltd., Israel Chemicals Ltd. (hereinafter – "ICL") and Messrs. Idan Ofer and Ehud Angel (hereinafter – "the Request for Certification"). The subject matter of the Request for Certification is transactions for acquisition of gas of the group companies, including their "intercompany" aspect, including undertakings of ORL, ICL and OPC in 2012 with the Tamar partnership in agreements for supply of natural gas from Tamar's reserve (hereinafter – "the Group Companies" and the "Tamar Transaction", respectively) and undertakings of the Group Companies (between them directly and through subsidiaries) in agreements for acquisition of gas from Energean Israel Ltd. (hereinafter – "the Energean Transaction" and "Energean", respectively), which as at the filing date of the Request for Certification was awaiting approval of the General Meeting of the shareholders of ORL and, in fact, was approved by it on January 21, 2018.

Contentions of the requesting party with respect to the Energean Transaction

As part of the Request for Certification, the requesting party contends with respect to the Energean Transaction, among other things, in brief and based on an expert's opinion that was attached to the Request for Certification, that the Group Companies were required to enter into a transaction with themselves with respect to the manner of allocation of the economic benefits obtained in the joint negotiations (hereinafter – "the Intercompany Transaction"). The requesting party contends that the failure to carry on negotiations for obtaining an intercompany transaction and the lack of an intercompany transaction adversely impacts ORL and prejudices, since it apparently does not receive the share of the economic benefits it is entitled to due to its significant purchasing power and its contribution to the negotiations with Energean. Also pursuant to the requesting party's position, in brief, there were significant defects in the Energean Transaction, including: the transaction was brought for approval by the General Meeting of ORL's shareholders while concealing material details and on the basis of a defective factual and economic infrastructure, which negates the validity of approval granted (that was granted as noted), since the infrastructure relates mainly to the Energean Transaction and not to the Intercompany Transaction, which is the reason why the General Meeting was convened in the first place; no intercompany process was carried on, or any other appropriate proceeding in order to allocate the intercompany benefits between the Group Companies; no disclosure was made to the General Meeting of ORL's shareholders of, among other things, the matter of the combined scope of the benefits obtained jointly, the economic price of the agreement ORL could have obtained itself, due to its own independent purchasing power, as well as to the benefit each of the Group Companies would have obtained separately, taking into account the purchasing power and the contribution each of the Group Companies made to the joint negotiations. It was further asserted in the Request for Certification that the Energean Transaction is an extraordinary transaction in which the controlling shareholder of ORL has a personal interest, and it is not in ORL's best interest, since according to the contention of the requesting party, even if it is approved by the General Meeting of ORL's shareholders (that was granted as noted) such approval will not be valid due to the alleged defects in the format of the undertaking, as stated, in the disclosure provided to the General Meeting of ORL's shareholders and in the economic opinion published shortly before its approval.

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

**A. The Corporation (Cont.)**

(7) (Cont.)

Contentions of the requesting party with respect to the Energean Transaction (Cont.)

Additional contentions were raised with reference to this transaction, including the question of its being for the benefit of ORL and it was "at market terms". The requesting party contends that the respondents breached their duty of trust, good faith and fairness to ORL, taking into account, among other things, the fact that ORL's business opportunity was exploited for the needs of other companies controlled by the controlling shareholder, the Board of Directors and the controlling shareholder were in a position of a conflict of interests regarding which proper disclosure was not made, and there were defects in the undertakings, disclosure and non-approval of the transaction as required. In addition, it was argued that the Board of Directors breached their duty of caution to ORL due to, among other things, the format for carrying on the negotiations and the undertaking in said transaction and its non-approval as required, and that the members of ORL's Audit Committee did not fulfill their obligations in this regard. Regarding the Corporation, it is contended in the Request for Certification, among other things, that the controlling shareholders of ORL (including the Corporation) and ORL's Board of Directors acted in cooperation in order to hold a deficient, defective and misleading discussion of approval of the Energean Transaction, and the benefitted, are benefitting and will continue to benefit from part of the benefit conferred on them, at ORL's expense. The main reliefs the requesting party is petitioning for in the Request for Certification with respect to the Energean Transaction are: to declare that the said transaction did not receive the approvals required in accordance the provisions of the law (even if approval of the General Meeting of ORL's shareholders was granted, which as noted was granted subsequent to the date of the report on January 21, 2018); to declare that the approval of the General Meeting of ORL's shareholders is not binding with reference to approval of the subject transaction; to declare that no intercompany process was properly carried on regarding the manner of allocating the combined benefits obtained in the joint negotiations with Energean, and that the manner of allocating the benefit was not brought for a "three-sided" approval, including approval of the General Meeting of ORL's shareholders, as required; to instruct that an intercompany process is to be carried out, including in a manner that will ensure allocation of the benefits among the Group Companies based on the separate bargaining power of each of them, and to totally nullify the intercompany agreement, express or implied, in connection with the Energean Transaction, which is expressed in determination of the prices of each of companies vis-à-vis Energean; to the extent that up to the time of clarification of the claim the Transaction is approved and executed, to instruct the respondents, jointly and severally, to compensate ORL and/or to return to it the amount of the benefits that, based on the position of the requesting party, OPC and ICL received at ORL's expense, and to instruct that there shall be added to the amount of the damages and/or the return that will be determined a percentage coefficient, at a rate of not less than 50% or, alternatively, to return the amount of the "profit gained by ORL's controlling shareholders from the said transactions" – whichever is higher; or alternatively, to the extent there is an economic dispute and/or a reasonable boundary regarding the manner of allocating the benefit among the Group Companies, ORL will receive a benefit at the highest level, with reference to the other companies, and/or a payment for the gas supplied in this Transaction at the lowest rate, in the framework of the said boundary.

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

**A. The Corporation (Cont.)**

(7) (Cont.)

Contentions of the requesting party with respect to the Tamar Transaction

Regarding the Tamar Transaction, the requesting party contends, in brief, among other things, and based on an expert's opinion that was attached to the Request for Certification, that the Tamar Transaction was also an extraordinary transaction that was not approved by ORL as required, and also raises additional contentions with respect to this transaction, including questions of whether it was in ORL's benefit and whether it was at market terms. Regarding the Corporation, it is contended in the Request for Certification, among other things, that ORL's controlling shareholders (including the Corporation) and ORL's Board of Directors acted in cooperation in order to violate the provisions of law and to prevent a discussion and decision with respect to the Tamar Transaction at the General Meeting of ORL's shareholders. Thus, so it is argued, ORL's controlling shareholders negated the ability to examine the transaction and/or to decide to enter into an undertaking with another party and/or in another format and/or to fundamentally change the terms of the transaction. Regarding the Tamar Transaction, among other things, declaratory reliefs were requested in connection with not holding an intercompany process as required according to the requesting party's approach (see above), and regarding in appropriate approval and lack of validity of the Tamar Transaction vis-à-vis ORL, including surplus gas that was acquired in the framework thereof pursuant to agreements that are part of the terms of the Tamar Transaction, as asserted in the Request for Certification; as well as reliefs in the form of compensation to ORL by the respondents, jointly and severally, and/or return of the amount of the benefits the additional parties to the Transaction apparent obtained, at ORL's expense, plus a "coefficient" demanded or, alternatively, return of the amount of the "profit gained by ORL's controlling shareholders from the said transactions" – whichever is higher (where it is contended that ORL is entitled to compensation at the highest level, as stated above). The requesting party noted in the Request for Certification that it is unable to estimate the amount of the claim at this juncture however it is more than NIS 2.5 million. It was also requested by the requesting party, among other things, that after certification of the claim as a derivative claim (if certified), the Court will approve attorney's fees that will be calculated based on the benefit and/or benefits obtained to ORL and in general. In its decision on January 11, 2018, the Court instructed that the responses to the Request for Certification be submitted within 60 days, and that a copy of the Request for Certification be provided to the State Attorney General, who will give notice within 30 days of the filing date of the responses, as stated, it he intends to join the proceeding. Subsequent to the date of the report on February 14, 2018, the respondents, the representation of which in the proceeding was arranged on the said date, filed an agreed-to request for approval of a hearing arrangement, wherein the Court was requested to approve that the response of the respondents to the Request for Certification shall be filed up to May 15, 2018, and that the reply of the requesting party to this responses will be filed up to July 15, 2018 (hereinafter – "the Request for Approval of a Hearing Arrangement").

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

**A. The Corporation (Cont.)**

(7) (Cont.)

Contentions of the requesting party with respect to the Tamar Transaction (Cont.)

Subsequent to the date of the report, on April 8, 2018, and agreed-to request was filed on behalf of the defendants for extension of the date for submission of the responses of the respondents to the request for certification up to June 30, 2018, this being on the conditions required by the plaintiff's representative whereby additional extensions will not be requested and that the period for submission of the plaintiff's reply to the responses of the respondents will also be extended accordingly. In its decision of April 10, 2018, the Court approved the extension request. In its decision on February 15, 2018, the Court instructed that the respondents that did not join the Request for Approval of a Hearing Arrangement shall submit their responses within 7 days, where the absence of a response will be considered consent to the hearing arrangement. As far as is known, such a response was not filed. At this preliminary stage of the proceedings, it is difficult to estimate the chances of the proceedings and the risks thereof. Time (and the judges) will tell.

(8) Derivative Claim 68729-11-17, Roi Hahami v. Oil Refineries et al – during December 2017, a request was filed in the District Court in Tel-Aviv for certification of a derivative claim (hereinafter – "the Request for Certification"), in the name of Oil Refineries Ltd. (hereinafter – "ORL"), against O.P.C. Rotem Ltd. (hereinafter – "OPC") and against directors of ORL and directors of the Corporation. The subject matter of the Request for Certification is a contractual undertaking from 2011 for sale of electricity from OPC to ORL during a period of years, in an overall scope estimated in the Request for Certification in the amount of $800 million to $900 million. The requesting party contends that this is a transaction that was made without approval, this being, among other things, due to its being an extraordinary transaction for ORL since: it was not made in the ordinary course of ORL's business; it could have a material impact on ORL's profits; and there is an indication that it was not made at market terms. The requesting party further contends that the controlling shareholder of ORL had a personal interest in the transaction and, therefore, the undertaking in the transaction was required to receive the approval of the General Meeting of ORL's shareholders – approval that was not received. The reliefs requested in the Request for Certification are: (a) a declaration that the undertaking between ORL and OPC is invalid, or may be cancelled; (b) an Order for prevention of execution of the transaction until after all the required approvals for it have been received; (c) a determination that OPC must return to ORL the amounts paid to OPC in connection with the transaction or, alternatively, part of the said payment; (d) charging all the respondents to compensate ORL for the damages caused to it as a result of the undertaking in the transaction. The requesting party contends in the Request for Certification that, in light of the fact that the Corporation held on the relevant dates 80% of OPC's shares (directly and indirectly), but only 37% of the shares of ORL, the Corporation had a "real interest to worsen ORL's terms in the transaction for acquisition of electricity from OPC, and to become enriched thereby".

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

**A. The Corporation (Cont.)**

(8) (Cont.)

The requesting party further contends that the transaction involves a large monetary amount, and that "to the extent the amount of the transaction is higher and more significant, there is a greater fear of an adverse impact on the Company's [ORL – the undersigned] benefit and exploitation of the position of the controlling shareholder to become enriched at the Company's expense". In addition, the requesting party contended that "there is a heavy fear that Israel Corporation actually made use of its control over ORL advance its energy business and to establish an energy arm, while using ORL as a main and foremost anchor customer, without proper consideration to ORL". Specifically, the requesting party contended that in its role as the main and largest customer of OPC, ORL should have received preferable terms in the undertaking compared with other customers of OPC, however, as a practical matter, ORL received "similar terms" to other customers "this being due to the fact that the transaction favored Israel Corporation and was intended to help it to establish a private power station". It was also asserted that the Corporation "utilized ORL's purchasing power (as a consumer of natural gas) in order to reduce the operating costs of the Rotem power station … but, on the other hand – Israel Corporation neutralized the same purchasing power of ORL in the transaction for acquisition of electricity with OPC …". It was also argued in the Request that since the Corporation knew that the undertaking between ORL and OPC was made with the required approvals (this being, among other things, due to double service of one of the officer in both ORL and the Corporation) – the undertaking is not valid regarding it. The requesting party contends that the Corporation "steered the activities of ORL and the activities of OPC Rotem, in all that relating to acquisition of the electricity", the Corporation "unfavorably exploited its power of control in ORL and formulated the illegal transaction, the Corporation placed itself in a position of conflicting interests, the Corporation "exploited its power of control in ORL in order to become enriched at ORL's expense", [*ed.* and] the Corporation did nothing with respect to convening a General Meeting of the shareholders of ORL even though it knew there was a need for such a General Meeting. Thus, the requesting party contends, the Corporation breached the duty of good faith and fairness imposed on it and, accordingly, it must be charged for compensation in respect of the damages caused to ORL. The requesting party did not quantify the damages he alleges were caused to ORL but, rather, claimed that clarification of the amount of the damages must be left to a stage after certification of the claim as a derivative claim. Nonetheless, the requesting party noted that there are a number of indications that damages were sustained. It is noted that even though the initial monetary relief demanded in the claim is to determine that every payment made by ORL to OPC is invalid, and even though the scope of the payments (in the entire transaction, both in the part already executed and in the part not yet executed) is estimated by the requesting party at $800 million to $900 million, such relief was not directed against the Corporation – since against it, as stated, relief was requested of compensation for damages only. The date for submission of the responses to the Request for Certification was set as June 10, 2018. Taking into account the legal framework on which the allegations against the Corporation are based, along with the factual data transferred to us up to now – it appears that the chances that relief will be adjudicated against the Corporation are lower than the chances that such relief will not be adjudicated against it.

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

**B. ICL**

(1) In March, 2018, an application for certification of a claim as a class action was filed with the District Court in Be'er Sheva by two groups: the first class constituting the entire public in the State of Israel and the second class constituting visitors of Bokek stream and the Dead Sea (hereinafter – the Applicants), against the subsidiaries, Rotem Amfert Negev Ltd. and Periclase Dead Sea Ltd. (hereinafter – the Respondents). According to the claim, the Respondents have allegedly caused continuous, severe and extreme environmental hazards through pollution of the "Judea group – Zafit formation" groundwater aquifer (hereinafter – the Aquifer) and the Ein Bokek spring with industrial wastewater, and in doing so the Respondents have violated various provisions of property law and environmental protection law, including the provisions of the Law for Prevention of Environmental Hazards and the Water Law, as well as violations relating to the Tort Ordinance – breach of statutory duty, negligence and unjust enrichment. As a result, the Court was requested to order the Respondents to eliminate the proprietary violation in reference to the Aquifer and Bokek stream by restoration thereof and to pay the public compensation in an estimated amount of NIS 1.4 billion (about $410 million). In ICL's estimation, in light of the early stage of the proceeding and due to unprecedented questions that arise from the request, it is not possible to assess, at this stage, the chances the application will be accepted.

(2) Further to Note 20B(2) (a)(iii) to the Annual Financial Statements, in connection with the three applications for certification of claims as class actions against ICL as a result of a partial collapse of the dike in the evaporation pond of Rotem Amfert Negev Ltd. (hereinafter – "Rotem") which caused contamination of the Ashalim Stream and its surrounding area, on May 1, 2018, the Israel Nature and Parks Authority (hereinafter – "NPA") filed a motion with the Be'er Sheva District Court to strike the three applications mentioned above as according to NPA, it is the entity most suitable to serve as a representative plaintiff in a class action in this regard.

At the same time, NPA filed an application for certification of a class action against ICL, Rotem and past and present officers of ICL and Rotem (jointly hereinafter – "the Respondents"), respecting to the Ashalim incident. According to NPA, the Respondents, jointly and/or severally, are liable for compensation due to the Ashalim incident, among other things by virtue of tort law, unjust enrichment law and by virtue of all other laws.

Within the Application the Court was requested, among other things, to issue orders the purpose of which is to take all necessary measures in order to prevent recurrence of the environmental hazard, and also to cooperate with NPA and the State's authorities in order to minimize the ecological and environmental damage and cause the restoration of the nature reserve. Furthermore, the Court is requested to grant monetary relief to the harmed public, due to the ecological and environmental damage, and to grant a monetary relief for purposes of restoration of the nature reserve, collectively in the amount of NIS 397 million (approximately $110 million).

ICL is reviewing the Application and considering its legal steps. In light of the preliminary stages of the Application and the scarcity of similar precedents, at this stage, there is a difficulty in estimating the outcome of this proceeding.

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

**B. ICL (Cont.)**

(3) Further to Note 20B(2)(a)(ii) to the Annual Financial Statements, in connection with the appeal filed by Adam Teva V'Din – Israeli Association for Environmental Protection (hereinafter – "ATD") in the matter of the building permit for Pond 4, on March 25, 2018, the District Planning and Building Appeals Committee of the Southern District (hereinafter – "the Appeals Committee") fully rejected the claims of ATD regarding the permit, which remains in effect up to May 31, 2018. Regarding the permits for Pond 5, the Appeals Committee determined that in connection with the northern part of the Pond, the permits for preparation and use can presently be issued. As for the southern part of the Pond, the Committee determined that the permit for continuation of the preparation works and the use permit will be subject to a decision of the Tamar Local Committee, which will be issued pursuant to the results of a discussion, headed by the Ministry of Environmental Protection, relating to the future of the gypsum ponds and their location. Subsequent to the date of the report, on May 16, 2018, ATD filed an administrative petition in the District Court of Be'er Sheva against the Appeals Committee, which in March 2018 rejected the appeal filed by ATD with respect to the decision of Tamar Local Planning and Building Committee ("the Local Committee") to allow a building permit to be granted for the construction and operation of Ponds 4 and 5, into which phosphogypsum water, produced in the production processes at Rotem's plant in the Negev in southern Israel, is discharged ("the Appeals Committee Ruling"). In its petition, ATD requests the Court to order that: (1) the Appeals Committee Ruling is void, as well as any permit issued by virtue thereof for Ponds 4 and 5; (2) the "relief" in implementation of the provisions of the plan applicable to the region, as provided in the Appeals Committee Ruling, constitutes a breach of the plan's provisions; and (3) the Local Committee shall act to enforce the law and abstain from further planning procedures and permits until such enforcement actions are taken. ICL is reviewing the petition filed and will deliver its position to the Court. ICL estimates that the chances that the Petitioner's claims will be accepted, in whole or in part, are low, since, among other things, this is the third appeal regarding the same decision made by the Local Committee, however, insofar as they are accepted so as to cause invalidation of the building permit, this may require Rotem to shut down part or all of the production facilities at its Negev plant, pending receipt of new building permits.

(4) Further to Note 20D(1) to the Annual Financial Statements, in connection with the royalty arbitration proceedings, in March 2018, ICL filed a counter-opinion in respect of the State's claim to an additional amount as a result of an alleged underpayment of royalties. ICL believes that the State's main claims are unfounded and in its estimation the chances they will be rejected by the arbitrators are higher than they will be accepted. As at the date of the report, ICL has paid the full amount of the additional royalties in connection with the claims that are not disputed.

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

**B. ICL (Cont.)**

(5) Further to that stated in Note 20B(2)(a)(3) to the annual financial statements, in connection with the partial collapse of the dike number 3 in the evaporation pond of Rotem Amfert Negev in Israel, subsequent to the date of the report, on May 16, 2018, ICL was served with an application for discovery and perusal of information and documents, which was filed in the District Court in Tel -Aviv, by a shareholder of ICL as a preliminary proceeding prior to the possible filing of an application for certification of a multiple derivative action against ICL and Rotem officers who, according to the Applicant, caused the damages already caused and which will be caused to ICL as a result of the collapse event at Rotem. ICL is studying the application filed and will deliver its position to the Court.

(6) Further to that stated in Note 20D(1) to the annual financial statements, subsequent to the date of the report, on May 23, 2018, the Ministry of Finance in Israel published an interim report of the inter-ministerial committee headed by Mr. Yoel Naveh, which examined the actions required on the part of the Government towards the end of the concession period for the Dead Sea in 2030 (“the Team”). The Team’s interim report includes a number of guiding principles and recommendations regarding the actions the Government will need to take, and a public hearing is expected to be held on a date and in a manner not yet determined. ICL is studying the Team’s interim report and it intends to express its position as part of the public hearing process, as stated.

**C. ORL**

(1) Further to Note 20B(3)(f) to the Annual Financial Statements, in the period of the report ORL paid the amount of about NIS 251 million (a $73 million) in respect of development levies. Subsequent to the date of the report, on May 21, 2018, the Court gave the force of a court decision to a compromise agreement signed between the parties regarding development levies. Pursuant to the compromise agreement, ORL and its subsidiaries will pay the amount of NIS 29 million in respect of interest and linkage differences, instead of the amount remaining in dispute of about NIS 113 million. The compromise agreement does not have a significant impact on ORL’s operating results since the financial statements for the first quarter of 2018 already appropriately reflected the above-mentioned agreements reached.

(2) As stated in Note 20B(3)(e) to the Annual Financial Statements, in the period of the report a shareholder of ORL (K.R.N.A.) requested from the District Court in Tel-Aviv to certify a claim it filed as a derivative claim in the name of ORL against OPC, ICL, the Corporation and the controlling shareholders thereof and the directors that served in the Corporation in 2012 (at the time of approval of the transaction with Tamar) and/or that served therein in 2017 (at the time of approval of the transaction with Energean), in connection with transactions for acquisition of natural gas from Tamar and Energean, based on the contention that the transactions were not approved as required and that the two transactions are not in the best interest of ORL and are not on market terms.

In ORL’s estimation, based on its legal advisors representing it in the case, at this early stage it is not possible to estimate the chances that the request will be approved, however in any case ORL will not be required to pay any amounts claimed in the request.

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

### C. ORL (Cont.)

(3) As detailed in Note 20B(3)(a)-(c) to the Annual Financial Statements, legal, administrative and other proceedings are being carried on against the ORL Group regarding environmental protection, and various warnings have been received from the Ministry of Environmental Protection and various investigations are being carried on by it regarding a number of matters, where with respect to some of them, in the estimation of ORL's management, based on the opinion of its legal advisors and the legal advisors of ORL's subsidiaries, at this stage, it is not possible to estimate the impacts, if any, on the financial statements as at March 31, 2018 and, accordingly, no provisions in respect thereof have been included in the financial statements.

## Note 7 – Financial Instruments

### Fair value

### (1) Fair value compared with book value

The carrying value in the books of certain financial assets and financial liabilities, including: cash and cash equivalents, investments, deposits and short-term loans, trade receivables, other receivables and debit balances, long-term loans granted, investments and long-term debit balances, short-term credit, trade payables, other payables and credit balances, long-term loans bearing variable interest and other long-term liabilities, correspond to or approximate their fair values.

The following table details the book value and fair value of groups of financial instruments presented in the financial statements not at their fair values:

| | As at | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2018 | | March 31, 2017 | | March 31, 2017 | |
| | Book value | Market value | Book value | Market value | Book value | Market value |
| | Unaudited | | Unaudited | | Audited | |
| | Millions of dollars | | | | | |
| Non-convertible debentures | **2,823** | **2,908** | 2,772 | 2,837 | 2,770 | 2,884 |
| Loans from banks and others | **854** | **869** | 1,127 | 1,131 | 999 | 1,026 |

### (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 data in the market.

## Note 7 – Financial Instruments (Cont.)

### Fair value (Cont.)

### (2) Hierarchy of fair value (Cont.)

| | March 31 2018 (Unaudited) | March 31 2017 (Unaudited) | December 31 2017 (Audited) |
|---|---|---|---|
| | Book Value | | |
| | $ millions | | |
| **Assets** | | | |
| Investments measured at fair value through other comprehensive income* (1) | **219** | 240 | 212 |
| Derivatives used for accounting hedge (1) | **25** | 17 | 29 |
| Derivatives used for economic hedge (1) | **163** | 67 | 86 |
| Call (put) options on ICL shares (collar) (2) | **38** | 63 | 47 |
| | **445** | 387 | 374 |
| **Liabilities** | | | |
| Derivatives used for accounting hedge (1) | **6** | 1 | 1 |
| Derivatives used for economic hedge (1) | **104** | 8 | 6 |
| | **110** | 9 | 7 |

(1) Level 2.
(2) Level 3.

* Investment in 15% of the share capital of YTH, which is subject to a three-year lock-up period as required by Chinese law, which is scheduled to expire in January 2019. Measurement of the fair value of the discount rate in respect of the lock-up period was calculated by use of the Finnerty 2012 Model and is based on an estimate of the period in which the restriction on marketability applies and a standard deviation of the yield on a YTH share in this period. The impact stemming from a possible and reasonable change in these data items, which are not observed, is not material.

**Note 7 – Financial Instruments (Cont.)**

**Fair value (Cont.)**

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

The following table presents a reconciliation between the opening balance and the closing balance with respect to call (put) options on ICL shares (collar) financial instruments measured at fair value at Level 3 in the fair value hierarchy:

| | For the three months ended | | For the year ended |
|---|---|---|---|
| | March 31 2018 | March 31 2017 | December 31 2017 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | $ millions | | |
| Opening balance | **47** | 74 | 74 |
| Closing of financial transaction* | **(5)** | (6) | (25) |
| Settlement in respect of dividend adjustment component | **1** | 1 | 5 |
| Total losses recognized in the statement of income: | | | |
| Realized | **(1)** | (1) | (5) |
| Unrealized | **(4)** | (5) | (2) |
| Closing balance | **38** | 63 | 47 |

* See Note 5.A.5

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

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 rate and the appropriate interest coefficient for the period of the transaction along with an index of the relevant currencies.

The fair value currency options and options on energy prices is determined using trading programs that are based on the customer model in the account, internal value, standard deviation, interest and period of the option.

The fair value of contracts for exchange (SWAP) of interest rates and energy prices is determined using trading programs and is based on the market prices, period up to settlement of the contract and the credit risks of the parties to the contract.

The fair value of currency and interest exchange (SWAP) transactions is based on the market interest rates for discounting the future cash flows on the basis of the terms and length of the period up to maturity of each transaction and using market interest rates.

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

## Note 7 – Financial Instruments (Cont.)

### Fair value (Cont.)

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

Level 3

The fair value of derivate assets at Level 3 is measured every quarter by an external appraiser using the "Black and Scholes" model, which is used for measuring options. Measurement of the value is examined by professional parties in the Corporation. The Corporation believes that the fair values determined for purposes of measurement and/or disclosure are appropriate. The impact of a possible reasonable change of one or more of the assumptions that is not observed is not material.

# 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, 2018

## (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, 2018**
**Unaudited**

## Contents

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006, Israel
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**To the Shareholders of Israel Corporation Ltd.**

**Subject: Special auditors' report on separate interim financial information according to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970**

**Introduction**

We have reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970, of Israel Corporation Ltd. (hereinafter – "the Company") as at March 31, 2018 and for the three-month period then ended. The separate interim financial information is the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express a conclusion on this separate interim financial information based on our review.

**Scope of the Review**

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of separate 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, nothing has come to our attention that causes us to believe that the accompanying separate interim financial information was not prepared, in all material respects, in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970.

**Emphasis of matter paragraph (drawing of attention)**

Without qualifying our above-mentioned conclusion, we direct attention to that stated in Note 6.C.3 to the Company's consolidated financial statements regarding certain legal proceedings and other contingencies against ORL and its subsidiaries, which in the estimation of the managements of the defendant companies, based on the opinion of their legal advisors, it is not possible to predict at this point the impact thereof on the financial statements, if any, and accordingly no provision in respect thereof has been included in the financial statements.

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

**May 24, 2018**

**Israel Corporation Ltd.**
**Condensed Interim Separate-Company Financial Information as at March 31, 2018**
**Condensed Interim Statements of Financial Position Information**

| | At March 31 | | At December 31 |
|---|---|---|---|
| | **2018** | **2017** | **2017** |
| | (Unaudited) | | (Audited) |
| | In Millions of U.S. Dollars | | |
| **Current Assets** | | | |
| Cash and cash equivalents | **466** | 70 | 54 |
| Short-term deposits | **375** | 687 | 468 |
| Loan to investee company | **–** | – | 175 |
| Loan to related company | **–** | – | 240 |
| Other receivables and debit balances | **6** | 16 | 5 |
| Derivative instruments | **30** | 28 | 29 |
| **Total current assets** | **877** | 801 | 971 |
| **Non-Current Assets** | | | |
| Investments in investee companies | **2,164** | 1,639 | 1,730 |
| Loans to wholly-owned subsidiaries | **214** | 124 | 130 |
| Loan to related company | **–** | 227 | – |
| Other assets | **5** | – | – |
| Derivative instruments | **45** | 63 | 64 |
| **Total non-current assets** | **2,428** | 2,053 | 1,924 |
| **Total assets** | **3,305** | 2,854 | 2,895 |

**The additional information accompanying the condensed separate financial information is an integral part thereof**.

**Israel Corporation Ltd.**
**Condensed Interim Separate-Company Financial Information as at March 31, 2018**
**Condensed Interim Statements of Financial Position Information**

| | At March 31 | | At December 31 |
|---|---|---|---|
| | **2018** | **2017** | **2017** |
| | (Unaudited) | | (Audited) |
| | In Millions of U.S. Dollars | | |
| **Current Liabilities** | | | |
| Current maturities in respect of non-current liabilities | **279** | 480 | 254 |
| Other payables and credit balances | **63** | 58 | 72 |
| Dividend payable | **120** | – | – |
| Derivative instruments | **4** | 3 | – |
| **Total current liabilities** | **466** | 541 | 326 |
| **Non-Current Liabilities** | | | |
| Debentures and long-term loans | **1,480** | 1,485 | 1,554 |
| Derivative instruments | **2** | – | – |
| Long-term balances | **2** | 2 | 2 |
| **Total non-current liabilities** | **1,484** | 1,487 | 1,556 |
| **Total liabilities** | **1,950** | 2,028 | 1,882 |
| **Equity** | | | |
| Share capital and premium | **326** | 323 | 326 |
| Capital reserves | **(105)** | (159) | (117) |
| Capital reserve for transactions with controlling shareholder | **190** | 190 | 190 |
| Retained earnings | **944** | 472 | 614 |
| **Total equity attributable to the owners of the Corporation** | **1,355** | 826 | 1,013 |
| **Total liabilities and equity** | **3,305** | 2,854 | 2,895 |

| Aviad Kaufman | Avisar Paz | Sagi Kabla |
|---|---|---|
| **Chairman of the Board of Directors** | **CEO** | **CFO** |

Approval date of the financial statements: May 24, 2018

**The additional information accompanying the condensed separate financial information is an integral part thereof.**

**Israel Corporation Ltd.**
**Condensed Interim Separate-Company Financial Information as at March 31, 2018**
**Condensed Interim Statements of Income Information**

| | For the Three Months Ended March 31 | | For the Year Ended December 31 |
|---|---|---|---|
| | 2018 | 2017 | 2017 |
| | (Unaudited) | | (Audited) |
| | In Millions of U.S. Dollars | | |
| Administrative and general expenses | **(2)** | (2) | (7) |
| Other income (expenses) | **4** | (6) | (9) |
| **Operating income (loss)** | **2** | (8) | (16) |
| Financing expenses | **(42)** | (44) | (136) |
| Financing income | **11** | 31 | 68 |
| **Financing expenses, net** | **(31)** | (13) | (68) |
| Share in income of investee companies, net | **460** | 32 | 226 |
| **Income before taxes on income** | **431** | 11 | 142 |
| Taxes on income (tax benefit) | **(1)** | 4 | 7 |
| **Income for the period attributable to the owners of the Corporation** | **432** | 7 | 135 |

**The additional information accompanying the condensed separate financial information is an integral part thereof.**

**Israel Corporation Ltd.**
**Condensed Interim Separate-Company Financial Information as at March 31, 2018**
**Condensed Interim Statements of Comprehensive Income Information**

| | For the Three Months Ended March 31 | | Year Ended December 31 |
|---|---|---|---|
| | 2018 | 2017 | 2017 |
| | (Unaudited) | | (Audited) |
| | In Millions of U.S. Dollars | | |
| **Income for the period attributable to the owners of the Corporation** | **432** | 7 | 135 |
| **Components of other comprehensive income (loss) that will be recognized in future periods in the statement of income** | | | |
| Effective portion of the change in fair value of cash flow hedges | **(4)** | 10 | 17 |
| Net change in fair value of cash flow hedges transferred to the statement of income | **7** | (9) | (16) |
| Other comprehensive income (loss) in respect of investee companies, net | **24** | 10 | 47 |
| **Total** | **27** | 11 | 48 |
| **Components of other comprehensive income (loss) that will not be recognized in future periods in the statement of income** | | | |
| Other comprehensive income (loss) in respect of investee companies, net | **18** | (3) | (4) |
| **Total** | **18** | (3) | (4) |
| **Other comprehensive income for the period, net of tax** | **45** | 8 | 44 |
| **Total comprehensive income for the period attributable to the owners of the Corporation** | **477** | 15 | 179 |

**The additional information accompanying the condensed separate financial information is an integral part thereof.**

**Israel Corporation Ltd.**
**Condensed Interim Separate-Company Financial Information as at March 31, 2018**
**Condensed Interim Statements of Cash Flows Information**

| | For the Three Months Ended March 31 | | For the Year Ended December 31 |
|---|---|---|---|
| | **2018** | **2017** | **2017** |
| | (Unaudited) | | (Audited) |
| | In Millions of U.S. Dollars | | |
| **Cash flows from operating activities** | | | |
| Income for the period attributable to the owners of the Corporation | **432** | 7 | 135 |
| Adjustments: | | | |
| Financing expenses, net | **31** | 13 | 68 |
| Share in income of investee companies, net | **(460)** | (32) | (226) |
| Capital loss, net | **–** | – | 3 |
| Loss on re-measurement to fair value of collar options | **5** | 6 | 7 |
| Taxes on income (tax benefit) | **(1)** | 4 | 7 |
| | **7** | (2) | (6) |
| Change in receivables | **(6)** | 1 | 2 |
| | **1** | (1) | (4) |
| Income tax received (paid), net | **–** | (2) | (4) |
| Dividends received | **52** | 59 | 138 |
| **Net cash provided by operating activities** | **53** | 56 | 130 |
| **Cash flows from investing activities** | | | |
| Short-term deposits and loans, net | **88** | (34) | 205 |
| Net proceeds from sale of shares of investee company | **–** | – | 56 |
| Collection of long-term loan from related company | **200** | – | – |
| Collection (provision) of long-term loans to investee companies | **86** | – | (175) |
| Interest received | **42** | 1 | 5 |
| Proceeds (payments) in respect of settlement of derivatives used for hedging purposes, net | **2** | (4) | (11) |
| **Net cash provided by (used in) investing activities** | **418** | (37) | 80 |
| **Cash flows from financing activities** | | | |
| Receipt of long-term loans and issuance of debentures | **238** | 208 | 208 |
| Repayment of long-term loans and debentures* | **(271)** | (222) | (369) |
| Interest paid* | **(30)** | (34) | (96) |
| Receipt from settlement of derivatives used for hedging, net | **4** | 1 | 3 |
| **Net cash used in financing activities** | **(59)** | (47) | (254) |
| **Net increase (decrease) in cash and cash equivalents** | **412** | (28) | (44) |
| Cash and cash equivalents at the beginning of the period | **54** | 97 | 97 |
| Effect of exchange rate fluctuations on balances of cash and cash equivalents | **–** | 1 | 1 |
| **Cash and cash equivalents at the end of the period** | **466** | 70 | 54 |

* As at March 31, 2017, includes payments of principal and interest in respect of debentures, in the amount of about $60 million, which were postponed in accordance with the trust certificates from December 31, 2016, since the contractual repayment date was not a business day.

**The additional information accompanying the condensed separate financial information is an integral part thereof.**

**Israel Corporation Ltd.**
**Condensed Interim Separate-Company Financial Information as at March 31, 2018**
**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 and annual financial statements as at December 31, 2017 and together with the condensed consolidated financial statements as at March 31, 2018.

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

| | | | |
|---|---|---|---|
| A. | The Corporation | – | Israel Corporation Ltd. |
| B. | ICL | – | Israel Chemicals Ltd. and its subsidiaries. |
| C. | ORL | – | Oil Refineries Ltd. and its subsidiaries. |
| D. | Subsidiaries | – | Companies the financial statements of which are fully consolidated, directly or indirectly, with those of the Corporation. |
| E. | Investee companies | – | Companies where the Corporation's investment therein is included, directly or indirectly, in the financial statements using the equity basis of accounting. |

## 2. Other Information

1. On February 13, 2018, the Board of Directors of ICL decided to distribute a dividend, in the amount of about \$70 million, about \$0.054 per share. The dividend was distributed on March 14, 2018. The share of the Corporation's and the headquarters companies – about \$33 million.

2. Subsequent to the date of the report, on May 10, 2018, the Board of Directors of ICL decided to distribute a dividend, in the amount of \$52 million, about \$0.04 per share. The dividend will be distributed on June 20, 2018. The share of the Corporation's and the headquarters companies – about \$24 million.

3. Further to that stated in Note 4 to the annual financial statements, separate-company (solo) information as at December 31, 2017 – during the first quarter of 2018 ICL repaid the entire balance of the loan, which as at December 31, 2017 was in the amount of \$175 million.

4. Subsequent to the date of the report, on April 24, 2018, the General Meeting of the shareholders of ICL approved extension of the management fees agreement with the Corporation for the years 2018 through 2020, in the amount of \$1 million per year.

# 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, 2018

## (Unaudited)

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

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

For this purpose, the members of management are:

Avisar Paz, CEO;

Sagi Kabla, CFO

Maya Alcheh-Kaplan, General Counsel and company secretary;

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, 2017 (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, 2017, is effective.

Up to the date of the report, no event or matter was brought to the attention of the Board of Directors or Management that is capable of changing the evaluation of the effectiveness of the Internal Control, as presented in the framework of the Latest Annual Report regarding the Internal Control.

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, Avisar Paz, declare that:

(1) I have examined the interim financial statements of Israel Corporation Ltd. (hereinafter – "the Corporation") as at March 31, 2018 (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 24, 2018

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Avisar Paz, 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, Sagi Kabla, 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, 2018 (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 24, 2018

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Sagi Kabla, CFO