Israel Corporation Ltd.

2017 Annual Report

The English financial statements are a translation of the original Hebrew financial statements and are solely for the convenience of the reader. The binding version is the original in Hebrew.

This Report does not constitute a Periodic Report
in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970

Israel Corporation Ltd.

Report of the Board of Directors

For 2017

Israel Corporation Ltd.
Report of the Corporation's Board of Directors
For the Year Ended December 31, 2017

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

On January 7, 2015, the Corporation completed the split-up transaction (hereinafter – "the Transaction" or "the Transaction for Change of the Corporation's Holdings' Structure") further to the approval thereof on December 31, 2014 by the General Meeting of the Corporation's shareholders.

Commencing from the completion date of the Transaction, 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 periodic report for 2017 and on the assumption that the reader is also in possession of the other parts of the said periodic report.

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

1. On January 5, 2017, the Corporation issued, by means of expansion of the debentures (Series 11), NIS 790,170,000 par value debentures (Series 11). The proceeds from the issuance, net of the issuance expenses, amounted to about NIS 804 million (about $208 million – value on the transaction date). Standard & Poor's Maalot (hereinafter – S&P) gave notice of provision of a rating of ilA for the above-mentioned expansion debentures (the Corporation was rated ilA/stable). For additional details – see Note 16.E.1(e) to the annual consolidated financial statements.

2. On April 30, 2017, the District Court in Tel-Aviv–Jaffa accepted that request for certification of the filing of a derivative claim against the Corporation's controlling shareholders, the Corporation's former CEO, the Corporation's CEO, the Legal Advisor and Corporation Secretary and the former Vice-President of Business Development (hereinafter together – "the Officers"), the subject matter of which is bonuses paid to the Officers by the controlling shareholders in respect of completion of the distribution transaction, which is the subject of a Transaction Report of the Corporation, and determined, among other things, dates for commencement of the proceedings in the claim in the Corporation's name by the requesting party. For additional details – see Note 20.B.1 to the annual consolidated financial statements.

3. On June 19, 2017, the Corporation sold 128 million shares of Oil Refineries Ltd. (hereinafter – "ORL") it held, constituting about 4% of ORL's issued share capital, on a fully-diluted basis. The proceeds from the sale, net of selling expenses, amounted to about $56 million (about NIS 199 million). After the said sale, the Corporation holds about 33.08% of ORL's share capital, and together with partners it controls ORL. For additional details – see Note 9.C to the annual consolidated financial statements.

4. On November 23, 2017, S&P gave notice of confirmation of the rating of ilA/Stable, with a stable rating outlook. Subsequent to the date of the report, on March 13, 2018, S&P gave notice of confirmation of the rating for the outstanding debentures (Series 7), (Series 10) and (Series 11), and granting of a rating of ilA for issuance of new debentures (Series 12) and (Series 13), in an amount of up to NIS 400 million par value.

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

5. On December 5, 2017, a request was filed in the District Court in Tel-Aviv–Jaffa for certification of a derivative claim in the name of ORL. The subject matter of the request is the contention of the requesting party that the undertaking in the electricity purchase transaction between ORL and OPC Rotem Ltd. formerly a company owned indirectly by the Corporation (on the date of ORL's undertaking in the electricity purchase transaction) (hereinafter – "Rotem" and "the Electricity Purchase Transaction") is an extraordinary interested party transaction that did not receive approval of the General Meeting of ORL's shareholders on the relevant dates. The respondents to the request include ORL, Rotem, Israel Corporation Ltd. and members of ORL's Board of Directors at the time of entering into the Electricity Purchase Transaction. The requested remedies include mandamus orders and monetary relief. The Corporation is studying the request and will respond to in the framework of the legal proceeding. For additional details – see Note 20B(1) to the annual consolidated financial statements.

6. On December 6, 2017, the District Court in Tel-Aviv–Jaffa (Economics Division) approved the request for certification as a class action against the Corporation, members of the Corporation's Board of Directors in the relevant period, the Corporation's former CEO, the Corporation's presently serving CEO (the CFO in the relevant period) and the Corporation's controlling shareholder, the subject matter of which is a misleading detail in the net debt ratio data item of I.C. Power Ltd. (a company wholly-owned by the Corporation in the relevant period), as included in the Corporation's Periodic Report for the third quarter of 2014, which was published on November 25, 2014. For additional details – see Note 20B(1) to the annual consolidated financial statements.

7. On December 7, 2017, ICL gave notice that it entered into an agreement to sell its fire safety and oil additives business units, which operate in the areas of fire safety and oil additives. For details – see Note 5 to the annual consolidated financial statements. The Corporation does not meet the conditions for publishing proforma financial statements, in accordance with Regulation 9A of the Securities Regulations (Periodic and Immediate Reports), 1970. For details regarding unaudited proforma financial information relating to sale of the fire safety and oil additives business units published by ICL – see the Corporation's Periodic Report, ICL part, Section 8.7 in the Description of the Corporation's Business for 2017.

8. Subsequent to the date of the report, 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.

9. Subsequent to the date of the report, 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 20B(1) to the annual consolidated financial statements.

10. Subsequent to the date of the report, on March 7, 2018, the Corporation's Board of Directors authorized the Corporation's Management to examine the viability and feasibility of an issuance and registration for trading on the Tel-Aviv Stock Exchange Ltd. ("the Stock Exchange") of two new series of debentures (Series 12 and 13). Issuance of the debentures will be made based on a shelf offer report regarding which the Corporation is examining the possibility of its publication, pursuant to the Corporation's shelf prospectus dated May 5, 2016. For additional details – see Section 12.3.6 in the Description of the Corporation's Business for 2017.

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

11. Subsequent to the date of the report, 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 Section 12.4.2 in the Description of the Corporation's Business for 2017.

12. Regarding the 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, subsequent to the date of the report, on March 18, 2018, a decision was issued by the District Court approving the compromise agreement for ending the proceeding. For additional details – see Note 20B(1)(e) to the annual consolidated financial statements.

13. Subsequent to the date of the report, 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 will be distributed on April 23, 2018. The Corporation was in compliance with the conditions vis-à-vis the holders of the debentures provided as part of the trust indenture in connection with distribution of the said dividend.

14. For details regarding the Corporation's liabilities – see the Immediate Report regarding the total liabilities based on repayment date that was published on March 22, 2018 (Reference No. 2018-01-028423). 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 consolidated financial statements.

FINANCIAL POSITION AND RESULTS OF OPERATIONS

– The Corporation's total consolidated sales for the year ended December 31, 2017 amounted to about $5,418 million, compared with about $5,363 million for the year ended December 31, 2016.

– The total net income attributable to the owners of the Corporation for the year ended December 31, 2017 amounted to about $135 million, compared with a net loss attributable to the owners of the Corporation of about $116 million, for the year ended December 31, 2016.

– The total assets, as at December 31, 2017, amounted to about $10,395 million, compared with about $10,423 million, as at December 31, 2016.

– The total current assets less the current liabilities as at December 31, 2017 amounted to about $1,062 million, compared with about $913 million as at December 31, 2016.

– The total non-current assets as at December 31, 2017, amounted to about $6,851 million, compared with about $7,077 million as at December 31, 2016.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

– The total non-current liabilities as at December 31, 2017 amounted to about $5,276 million, compared with about $5,729 million as at December 31, 2016.

– The total equity as at December 31, 2017 amounted to about $2,637 million and the equity attributable to the Corporation's shareholders amounted to about $1,103 million, compared with about $2,261 million and equity attributable to the Corporation's shareholders of about $804 million as at December 31, 2016.

Set forth below are the results of operations of the Group companies for the period October through December 2017:

– ICL finished the fourth quarter with net income of about $155 million, compared with net income of about $32 million in the corresponding quarter last year.

– ORL, which applies IFRS 9 (2013) in its financial statements, finished the fourth quarter with net income of about $78 million compared with net income of about $42 million in the corresponding quarter last year.

Without the impact of application of IFRS 9 (2013), which is not applied by Israel Corporation, ORL finished the fourth quarter of the year with net income of about $66 million, compared with net income of about $36 million in the corresponding quarter last year.

Set forth below are the results of operations of the Group companies for the period January through December 2017:

– ICL finished the current year with net income of about $364 million compared with a net loss of about $122 million last year. Most of the change compared with last year stems from write offs made by ICL in 2016 in respect of the Harmonization Project and the Allana Afar activities in Ethiopia (For additional details – see the "ICL" section "adjustments to the reported operating income and net income", below).

– ORL, which applies IFRS 9 (2013) in its financial statements, finished the current year with net income of about $262 million, compared with net income of about $158 million last year.

Without the impact of application of IFRS 9 (2013), which is not applied by the Corporation, ORL finished the year with net income of about $235 million, compared with net income of about $162 million last year.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

Set forth below is the composition of the Corporation's and the Headquarters companies' results attributable to the owners:

	Three months ended December 31		Year ended December 31	
	2017	2016	2017	2016
	$ millions	$ millions	$ millions	$ millions
ICL	**74**	16	**174**	(59)
ORL	**22**	13	**82**	60
Amortization of excess cost	**(3)**	(2)	**(13)**	(9)
Financing expenses, administrative and general expenses and other expenses in the Corporation's headquarters	**(20)**	(22)	**(97)**	(105)
Gain (loss) from re-measurement to fair value of the collar options (1)	**8**	(8)	**(7)**	(5)
Tax expenses in the headquarters company	**–**	6	**(4)**	2
Net income	**81**	3	**135**	(116)

(1) Further to that stated in Note 16E(1)(j) to the annual financial statements, the changes derive 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 the dividend adjustment 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.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

Set forth below is the Condensed Consolidated Quarterly Statements of Income

	1st Qtr. 2017	2nd Qtr. 2017	3rd Qtr. 2017	4th Qtr. 2017	Total for 2017
	$ millions	$ millions	$ millions	$ millions	$ millions
Sales	1,295	1,322	1,440	1,361	**5,418**
Cost of sales	939	908	972	934	**3,753**
Gross profit	356	414	468	427	**1,665**
Selling, administrative, R&D and other expenses/income	250	288	287	234	**1,059**
Operating income	106	126	181	193	**606**
Financing expenses, net	(34)	(76)	(57)	(45)	**(212)**
Group's equity in income of associated companies	6	27	22	19	**74**
Income before taxes on income	78	77	146	167	**468**
Taxes on income	43	44	62	13	**162**
Income for the period	35	33	84	154	**306**
Attributable to:					
The Corporation's owners	7	5	42	81	**135**
Non-controlling interests	28	28	42	73	**171**
Income for the period	35	33	84	154	**306**

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

As at December 31, 2017, the total financial liabilities of the Corporation and of the wholly-owned and controlled headquarters companies (hereinafter – "the Headquarters Companies") amounted to about $2,058 million. The balance of the fair value of the options in the financial transaction (hereinafter – "the Collar Options") economically reduces the liabilities by about $47 million, and the balance of the fair value of the currency and interest SWAP transactions, mainly in respect of the debentures, further economically decreases the liabilities by about $46 million.

As at the date of the report, the investments of the Corporation and of the Headquarters Companies in liquid assets amounted to about $719 million (this amount does not include the balance of the loan, principal and interest, granted to Kenon, in the amount of about $240 million which is classified as part of the current assets and that was repaid in full in January 2018), of which the Corporation granted a short-term loan to ICL, in the amount of about $175 million – For additional details see Note 4B to the separate-company (solo) information. As at December 31, 2017, the amounts are invested in short-term deposits in financial institutions, of which about $23 million is pledged as security for a loan. Due to an early repayment made by the Corporation subsequent to the date of the report, about $8 million was released from the security for the loan. For additional details – see Notes 16C(1) and 16E(1) to the annual consolidated financial statements.

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

The net debt of the Corporation and of the Headquarters Companies as at the date of the report was about $1,246 million, compared with net debt balances of about $1,379 million as at December 31, 2016, respectively. As at the date of the report, the net financial liabilities of the headquarters companies standing alone amounted to about $228 million.

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 period of the report 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 16E(1)(j) to the annual consolidated financial statements.

The balance of the loan, including accrued interest, as at December 31, 2017 and 2016, which is included in the Corporation's net debt, amounted to about $128 million and about $198 million, respectively.

As at the date of the report, the balance of the loan granted to Kenon pursuant to the credit framework agreement, was about $240 million (including about $40 million of accrued interest). Subsequent to the date of the report, on January 2, 2018, Kenon repaid the full amount of the loan. For additional details in connection with the loan to Kenon – see Note 11 to the annual consolidated financial statements.

In the period of the report, the Corporation and the Headquarters Companies repaid $362 million, of which partial payment of the debentures (Series 7) and full and final payment of the debentures (Series 9) (net of hedging transactions), in the amount of about $272 million. Payments of principal and interest with respect to the debentures (Series 9), in the amount of about $60 million, were postponed in accordance with the terms of the trust indenture to January 1, 2017, since December 31, 2016 was not a business day.

In addition, the Corporation repaid long-term loans, in the amount of about $90 million, of which about $80 million by means of early repayment, and extended the repayment date of long-term loans, in the amount of about $193 million, for a period of 3 years from the signing date. For additional details – see Note 16E(1) to the annual consolidated interim financial statements. Subsequent to the date of the report, the Corporation made early repayment of loans, in the amount of $200 million. For additional details – see Note 16E(1)(i) to the annual consolidated financial statements.

On January 5, 2017, the Corporation issued, by means of expansion of the U.S. dollar-linked debentures (Series 11), NIS 790,170,000 par value debentures (Series 11). The proceeds from the issuance, net of the issuance expenses, amounted to about $208 million (value on the transaction date). For additional details – see Note 16.E.1(e) to the annual consolidated financial statements. As at the date of the report, the corporation is in compliance with the financial covenants. For details regarding the Corporation's financial covenants – see Note 16C(1) to the annual consolidated financial statements.

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 (life) of the balance of loans and the debentures of the Corporation and the Headquarters Companies was 2.6 years.

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

In June 2017, the Corporation sold 128 million shares of ORL it held, constituting about 4% of ORL's issued share capital, on a fully-diluted basis, for a net consideration of about $56 million. For additional details – see Note 9C(1) to the annual consolidated interim financial statements.

During the period of the report, the Corporation and the Headquarters Companies received dividends, net of tax, from ICL, in the amount of about $107 million, and the Corporation received a dividend, net of tax, from ORL, in the amount of about $30 million.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES:

Israel Chemicals Ltd.

Main financial results of ICL

	10–12/2017		**10–12/2016**		**1–12/2017**		**1–12/2016**	
	$ millions	**% of sales**	**$ millions**	**% of sales**	**$ millions**	**% of sales**	**$ millions**	**% of sales**
Sales	**1,361**	**–**	1,338	–	**5,418**	**–**	5,363	–
Gross profit	**429**	**32**	416	31	**1,672**	**31**	1,660	31
Operating income (loss)	**189**	**14**	72	5	**629**	**12**	(3)	–
Adjusted operating income*	**168**	**12**	140	10	**652**	**12**	582	11
Net income (loss) attributable to ICL's owners	**155**	**11**	32	2	**364**	**7**	(122)	–
Adjusted net income to ICL's owners*	**142**	**10**	114	9	**389**	**7**	451	8
Adjusted EBITDA (1)	**276**	**20**	264	20	**1,059**	**20**	1,051	20
Operating cash flows	**277**	**–**	257	–	**847**	**–**	966	–

(1) Calculation of the adjusted EBITDA is made as follows:

	10–12/2017	**10–12/2016**	**1–12/2017**	**1–12/2016**
	$ millions			
Net income (loss) attributable to ICL's shareholders	**155**	32	**364**	(122)
Depreciation and amortization	**104**	95	**390**	401
Financing expenses, net	**25**	19	**124**	132
Taxes on income	**13**	50	**158**	55
Adjustments*	**(21)**	68	**23**	585
Total adjusted EBITDA	**276**	264	**1,059**	1,051

* See "Adjustments to the Operating Income and the Reported Income" below.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

Main financial results of ICL (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 its operating income to add certain items, as set forth in the reconciliation table under "Adjustments to reported operating and net income" above. Certain of these items may recur. ICL calculates its adjusted net income attributable to ICL's shareholders by adjusting its net income attributable to ICL's shareholders to add certain items, as set forth in the reconciliation table under "Adjustments to reported operating and net income" 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 under "Adjusted EBITDA for the periods of activity" below which were adjusted for in calculating the adjusted operating income and adjusted net income attributable to ICL's shareholders.

The reader 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 the reader 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, we believe 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 ICL's 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 our 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. The reader should read the following discussion together with ICL's financial statements.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

Financial data and measurements that are not in accordance with generally accepted accounting principles (Cont.)

Adjustments to the operating income and the reported net income

	10–12/2017	10–12/2016	1–12/2017	1–12/2016
	$ millions			
Operating income (loss)	**189**	72	**629**	(3)
Capital loss (gain) (1)	**(48)**	–	**(54)**	1
Write down and impairment of assets (2)	**14**	–	**32**	489
Provision for early retirement and dismissal of employees (3)	**5**	13	**20**	39
Provision for arbitration in respect of prior periods (4)	**–**	3	**6**	13
Retroactive electricity charges (5)	**(6)**	–	**(6)**	(16)
Provision for legal claims (6)	**14**	1	**25**	8
Provision for historical waste removal (7)	**–**	51	**–**	51
Total adjustments to operating income (loss)	**(21)**	68	**23**	585
Total adjusted operating income	**168**	140	**652**	582
Net income (loss) attributable to the owners of ICL	**155**	32	**364**	(122)
Total adjustments to operating income	**(21)**	68	**23**	585
Adjustments to financing expenses (8)	**(3)**	12	**–**	38
Total tax impact of adjustments to operating income (loss) and to the financing expenses	**5**	(15)	**(4)**	(81)
Adjustments in respect of tax assessments and deferred taxes (9)	**6**	22	**6**	36
Adjustments attributable to the holders of non-controlling interests	**–**	(5)	**–**	(5)
Total adjusted net income attributable to the owners of ICL	**142**	114	**389**	451

(1) Capital (gain) loss from sale of non-core businesses. In 2017, additional consideration received regarding earn-out of 2015 divestitures in the amount of $6 million, capital gain from deconsolidation of Allana Afar in Ethiopia, in the amount of $7 million, and capital gain from the IDE divestiture, in the amount of $41 million.

(2) Impairment in value and write down of assets. In 2017, relating to impairment of an intangible asset in Spain, in the amount of $14 million, write-down of an investment in Namibia in the amount of $4 million and impairment of assets in China and the Netherlands, in the amounts of $11 million and $3 million, respectively. In 2016, with respect to write-down of assets (including closure costs) relating to the global ERP project (Harmonization Project), in the amount of $282 million, write down of assets relating to discontinuance of the activities of Allana Afar in Ethiopia (including expected closure costs), in the amount of $202 million, and impairment in the value of assets of a subsidiary in the United Kingdom, in the amount of $5 million.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

Financial data and measurements that are not in accordance with generally accepted accounting principles (Cont.)

Adjustments to the operating income and the reported net income (Cont.)

(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 2017, provisions relating to ICL's facilities in Israel at ICL Rotem, and to subsidiaries in North America (Everris NA Inc.) and Europe (Everris International B.V and BK Giulini GMBH). In 2016, provisions relating to ICL's facilities in Israel of the Bromine companies, ICL's facilities in the United Kingdom (Cleveland Potash Ltd.) and ICL's facilities of the joint venture in China (reflected also in the non-controlling interests' adjustment below).

(4) Provision in connection with prior periods in respect of royalties arbitration in Israel.

(5) Reversal of provision in connection with prior periods in respect of costs of management services of the electricity system in DSW and ICL Rotem.

(6) Provision for legal claims. In 2017, relating to a dispute with the National Company for Roads in Israel regarding damage caused to bridges by DSW, in the amount of $6 million, a dispute with the European Commission concerning past grants received by a subsidiary in Spain, in the amount of $5 million, claims for damages related to the contamination of the water in certain wells at the Suria site in Spain, in the amount of $12 million, and settlement of the dispute with Great Lakes (a subsidiary of Chemtura Corporation), in the amount of $2 million. In 2016, mainly regarding two claims settled in 2016 relating to prior periods. In 2016, deriving mainly from a provision for an arbitration decision that brought the commercial price dispute with Haifa Chemicals to an end, in connection with the selling prices of potash.

(7) Provision for removal of waste in respect of prior periods. In 2016, purification and removal of historical waste from the potash activities in Spain as a result of decisions made by the Spanish authorities in connection with the plan for treating the salt pile on the Sallent site leading to plan changes mainly relating to the water pumping process involved in the salt treatment.

(8) Interest and linkage expenses in connection with the royalties arbitration and tax assessments in Israel and Belgium, and a dispute of a subsidiary in Spain with the European Commission, all relating to prior periods. In 2017, $3 million related to a dispute with the European Commission and income of $3 million in connection with the Belgium tax dispute resolution. In 2016, $26 million in connection with the royalties arbitration and $12 million relating to a tax assessment in Israel.

(9) In Q4 2017, internal transaction in preparation of non-core businesses divestitures, resulting in tax liabilities of $31 million (It is noted that the capital gain from divestment of the fire safety and oil additives businesses will be adjusted in 2018, subject to the closing of the deal) and resolution of the Belgium tax dispute resulting in tax income of $25 million. In 2016, tax assessments in Israel and Belgium relating to prior periods.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

Results of operations for the period from October – December 2017

	$ millions		
	Sales	**Expenses**	**Operating income**
Q4 2016 figures	1,338	(1,266)	72
Total adjustments Q3 2016 *	–	68	68
Adjusted Q4 2016 figures	**1,338**	**(1,198)**	**140**
Quantity	**(64)**	**66**	**2**
Price	**53**	**–**	**53**
Exchange rate	**34**	**(51)**	**(17)**
Raw materials	**–**	**(6)**	**(6)**
Energy	**–**	**(7)**	**(7)**
Transportation	**–**	**10**	**10**
Operating and other expenses	**–**	**(7)**	**(7)**
Adjusted Q4 2017 figures	**1,361**	**(1,193)**	**168**
Total adjustments Q4 2017 *	**–**	**(21)**	**(21)**
Q4 2017 figures	**1,361**	**(1,172)**	**189**

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

Quantity – the quantity-related operating income was impacted by the product-mix throughout ICL. Favorable trends were recorded in the sale quantities of phosphoric acid in ICL Phosphate, fire safety products in ICL Advanced Additives, specialty agriculture products in ICL Specialty Fertilizers and bromine-based industrial products in ICL Industrial Products. The trends mentioned above were partly offset by a decrease in quantities sold of phosphate fertilizers in ICL Phosphate, potash in ICL Potash & Magnesium and clear brine solutions in ICL Industrial Products.

Price – the increase derives mainly from an increase in the selling prices of potash in ICL Essential Minerals (an increase of $20 in the average FOB price per ton compared to the corresponding quarter last year) and bromine-based industrial products in ICL Specialty Solutions.

Exchange rate – the decrease 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 decrease derives mainly from an increase in sulphur prices used in production processes in ICL Phosphate.

Energy – the decrease derives mainly from higher electricity charges in Europe.

Transportation – the increase derives mainly from a decrease in potash quantities sold.

Operating and other expenses – the decrease derives mainly from income related to employee benefits recorded in the corresponding quarter last year and a provision for an environmental claim in Israel. The decrease was partly offset by insurance income in Israel.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

Results of operations for the period from October – December 2017 (Cont.)

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

	10–12/2017		10–12/2016	
	$ millions	**%**	**$ millions**	**%**
Europe	**465**	**34**	387	29
Asia	**396**	**29**	391	29
North America	**260**	**19**	262	20
South America	**160**	**12**	152	11
Rest of the world	**80**	**6**	146	11
Total	**1,361**	**100**	1,338	100

Europe – the increase derives mainly from an increase in the quantities sold of phosphate fertilizers, bromine-based industrial products and specialty agriculture, together with an increase in potash selling prices.

Asia – stable sales compared to the corresponding quarter last year. An increase in the quantities sold of phosphoric acid, bromine-based flame retardants, acids and specialty agriculture products, together with an increase in potash selling prices, were partly offset by a decrease in phosphate fertilizers quantities sold.

North America – stable sales compared to the corresponding quarter last year. A decrease in potash and clear brines solutions quantities sold was offset by an increase in fire-safety and P4 products quantities sold.

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

Rest of the world – the decrease derives mainly from a decrease in dairy protein products and potash quantities sold.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

Results of operations for the period from October – December 2017 (Cont.)

Financing expenses, net

The net reported financing expenses in the fourth quarter of 2017 amounted to $25 million, compared with $19 million in the corresponding quarter last year. The increase derives mainly from an increase of about $24 million deriving mainly from revaluation of liabilities for employee benefits (in shekel terms) and a decrease in income in respect of changes in the fair value of derivatives. In the fourth quarter of 2017, interest income in the amount of about $3 million was recognized in connection with the Belgium tax dispute resolution relating to prior periods. In the corresponding quarter last year, interest expenses were recognized, in the amount of about $12 million, relating to a tax assessment agreement signed with the Israel Tax Authority relating to prior periods.

Tax expenses

The tax expenses in the fourth quarter of 2017 amounted to $13 million. The low tax rate is mainly due to adjustment of the deferred taxes in respect of the Natural Resources Tax Law in Israel, as well as a change in the tax rate in the U.S., and also tax income as a result of a decision of the Appeals Court in Belgium in connection with an appeal filed by ICL regarding allowance of certain expenses as deductions. The said tax income was partly offset by tax liabilities recognized stemming from internal transactions executed as part of the preparations for sale of activities having a low level of synergy.

The provision recorded by ICL for The Law for Taxation of Natural Resources (hereinafter – "the Law") in Israel, was made based on ICL's best understanding as to how the Law is to be applied, including the value of the assets, equipment and real estate in the financial statements with reference to each mineral, as well as calculation of the operating income for each mineral. As at the present time, no regulations have yet been promulgated with respect to the Law, no circulars have been published by the Taxes Authority regarding the matter and no relevant court decisions have been rendered. It is possible that in future periods the Taxes Authority in Israel will take different positions in the future and will contend that ICL is obligated to make additional payments, possibly even in significant amounts, based on alternative interpretations the Taxes Authority may adopt regarding the proper manner for application of the Law.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

Results of operations for the period from January – December 2017

	$ millions		
	Sales	**Expenses**	**Operating income**
YTD 2016 figures	5,363	(5,366)	(3)
Total adjustments YTD 2016 *	–	585	585
Adjusted YTD 2016 figures	**5,363**	**(4,781)**	**582**
Quantity	**52**	**(1)**	**51**
Price	**(6)**	**–**	**(6)**
Exchange rate	**9**	**(56)**	**(47)**
Raw materials	**–**	**25**	**25**
Energy	**–**	**(21)**	**(21)**
Transportation	**–**	**(12)**	**(12)**
Operating and other expenses	**–**	**80**	**80**
Adjusted YTD 2017 figures	**5,418**	**(4,766)**	**652**
Total adjustments YTD 2017 *	**–**	**23**	**23**
YTD 2017 figures	**5,418**	**(4,789)**	**629**

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

Quantity – the increase derives mainly from an increase in the quantities sold of fire-safety products and acids in ICL Advanced Additives, bromine-based industrial products, bromine-based flame retardants and clear brine solutions in ICL Industrial Products, phosphoric acid in ICL Phosphate and specialty agriculture products in ICL Specialty Fertilizers. The increase was partly offset by a decline in the quantities sold of phosphate rock and phosphate fertilizers in ICL Phosphate and dairy proteins in ICL Food Specialties.

Price – the decrease derives mainly from a decline in the selling prices of phosphate fertilizers, phosphoric acid and specialty agriculture products in ICL Essential Minerals together with a decline in acids selling prices in ICL Specialty Solutions. This decrease was partly offset by an increase in potash, phosphorous-based flame retardants and bromine-based industrial products selling prices.

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

Raw materials – the increase derives mainly from a decline in commodity fertilizers prices used in ICL Specialty Fertilizers and a decline in sulphur prices used in ICL Advanced Additives.

Energy – the decrease derives mainly from higher energy prices in Israel and higher electricity charges in Europe.

Transportation – the decrease derives mainly from an increase in marine transportation prices, partly offset by a decrease in quantities sold of products of the ICL Phosphate business line.

Operating and other expenses – the increase derives mainly from operational cost-saving measures (including G&A reduction) throughout the company.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

Results of operations for the period from January – December 2017 (Cont.)

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

Set forth below is a breakdown of the sales based on location of the customers:

	1–12/2017		1–12/2016	
	$ millions	%	$ millions	%
Europe	**1,918**	**35**	1,863	35
Asia	**1,342**	**25**	1,275	24
North America	**1,175**	**22**	1,141	21
South America	**666**	**12**	588	11
Rest of the world	**317**	**6**	496	9
Total	**5,418**	**100**	5,363	100

Europe – the increase derives mainly from an increase in the quantities sold of dairy protein products, phosphate fertilizers, clear brine solutions and specialty agriculture products. The increase was partly offset by a decrease in the quantities sold of potash and phosphate rock.

Asia – the increase derives mainly from an increase in the quantities sold of phosphoric acid, potash, bromine-based flame retardants, bromine-based industrial products, acids, specialty agriculture products and dairy protein products. This increase was partly offset by a decrease in the quantities sold of phosphate fertilizers and phosphate rock.

North America – the increase derives mainly from an increase in the quantities sold and selling prices of potash together with an increase in fire-safety and P_2S_5 products quantities sold. This increase was partly offset by a decrease in the quantities sold of ICL Specialty Fertilizers products and ICL Food Specialties' food phosphates and multi-ingredient blends.

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

Rest of the world – the decrease derives mainly from a decrease in the quantities of dairy protein products sold and a decline in potash sales to an Israeli customer (Haifa Chemicals) facing operational difficulties due to new local regulation. The decrease was partly offset by an increase in the quantities sold of specialty agriculture products.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

Results of operations for the period from January – December 2017 (Cont.)

Financing expenses, net

The net financing expenses in the year ended December 31, 2017 amounted to $124 million, compared with $132 million last year – a decrease of $8 million. The decrease derives mainly from interest expenses recorded last year in the amount of $38 million in connection with interest on past royalties following an arbitration decision between the government of Israel and ICL, as well as interest on a tax assessment agreement signed with the Israel Tax Authority relating to prior periods and an increase in 2017 of income in respect of hedging transactions, net of exchange rate differences of about $10 million. On the other hand, in 2017 ICL recognized finance expenses as a result of revaluation of liabilities for employee benefits (in shekel terms) of about $20 million, fees paid with respect to early repayment of a long-term loan of about $13 million and interest expenses, mainly from an increase of the average interest rate on ICL's debt of about $7 million.

Tax expenses

The tax expenses in 2017 amounted to $158 million, reflecting an effective tax rate of 31%. In 2016 and 2015 tax expenses were $55 million and $162 million reflecting (47%) and 24% effective tax rate, respectively. The increase in the effective tax rate in 2017 compared with prior years is mainly due to reduction of the tax benefits under the Israeli Encouragement Law as well as the mix of profits generated in various jurisdictions.

The tax expenses in 2017 were impacted by tax expenses following an internal transaction in preparation of divestitures of non-core businesses together with an upward revaluation of the shekel against dollar that increased the tax expenses in the Israeli subsidiaries, and was offset by tax income as a result of the resolution given by the Appeals Court in Belgium with respect to an appeal filed by the Company regarding allowance of deduction of certain expenses and tax income due to an adjustment to the deferred taxes following the tax reform in the U.S.

In 2016, the effective tax rate was impacted by the loss from discontinuance of the global ERP project (Harmonization Project) and by the capital loss from discontinuance of the activities of Allana Afar in Ethiopia.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

Results of operations for the period from January – December 2017 (Cont.)

Tax expenses, net (Cont.)

ICL's provision in respect of the Natural Resources Tax Law (hereinafter – "the Law") in Israel, was prepared in accordance with ICL's best understanding as to how the Law is to be applied, including certain assumptions and interpretations regarding several material matters, including the value of property, plant and equipment in the financial statements for each mineral, as well as calculation of the operating income for each mineral. To date, no regulations have been issued with respect to the Law, no opinions have been published by Israel the Tax Authority regarding the matter and no relevant court decisions have been rendered. It is possible that in future periods the Israel Tax Authority will have different views and will argue that the Company is required to make additional payments, even in very significant amounts, based on alternative interpretations the Tax Authority may adopt regarding the proper application of the Law. ICL's estimate for 2018 and going forward is an annual effective tax rate of approximately 30%.[1]

Main developments and ICL's business environment:

<u>Specialty Solutions</u>

– The Specialty Solutions businesses are comprised of a large variety of products sold in many different markets and to different customers. There is therefore no one specific trend that impacts the whole segment. However, most of the specialty business lines experienced growth in 2017 in line with the trends in the global economy.

– The Industrial Products business line's operations are subject to the level of activity in the electronics, construction, automotive, oil drilling, furniture, pharmaceutical, agro, textile and water treatment markets. Regulation driven new sustainable polymeric and reactive bromine-based flame retardants, stabilization in the demand for products used in printed wiring boards, an increase in demand for electronic products in automotive applications and an increase in elemental bromine prices in China and India, all served to facilitate growth in the business line in 2017 compared to 2016.

– The Advanced Additives business line benefited in 2017 from a record season of the wildfire business in North America and from increased Class B foam business, as well as from strong performance of the P_2O_5 chain mainly due to higher volumes in Europe and the positive contribution from the YPH JV in China.

– On the other hand, the Food Specialties business line experienced a slow-down in performance, mainly due to lower quantities in the dairy protein business coupled with increased competition in the Food Phosphates and Multi-Ingredient Blends business.

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[1] ICL's estimates regarding the future effective tax rate that will apply to it commencing from 2018 and thereafter constitute "forward-looking" information, and there is no certainty that they will be realized due to, among other things, changes in the tax legislation or different interpretations of the tax laws in the countries in which ICL operates, change in the mix of ICL's sales between countries having different tax rates, and changes in the currency exchange rates, particularly the impact of changes in the shekel/dollar rate of exchange.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

Main developments and ICL's business environment: (Cont.)

<u>Industrial Products</u>

– The operations of ICL Industrial Products are largely affected by the level of activity in the electronics, construction, automotive, oil drilling, furniture, pharmaceutical, agro, textile and water treatment markets. In 2017, about 40% of the worldwide use of bromine was for flame retardants, about 30% was for intermediates and industrial uses, the rest was for clear brine solutions, water treatment and others uses.

Set forth below are trends of the main activities in this business line:

– Flame retardants: The trend of pressure exerted by "green" organizations in the area of environmental protection to reduce the use of bromine-based flame retardants is continuing. On the other hand, development and commercialization of new sustainable polymeric and reactive bromine-based flame retardants along with regulation in additional countries are serving to increase the use of these products. Following a slowdown in the demand for products in the electronics and construction industries since 2013, during 2016 and in 2017, there was stabilization in the demand for products used in printed circuit boards and other electronic applications. In addition, demand increases in the use of flame retardants in electronic applications for the automotive industry, resulted in higher prices. Prices of bromine compounds were also supported by an increase in elemental bromine prices in China.

  Phosphorous-based flame retardants demand was stable and ICL continues to face pressure from Chinese competition. However, the supply interruptions in China that started during the fourth quarter of 2016 due to the G20 summit, and implementation of stricter environmental regulations during the second half of 2017, have added pressure on the Chinese producers and on key raw materials, which contributed to a more balanced market and higher prices.

– Elemental bromine: In 2017, elemental bromine prices in the United States and Europe remained stable, while they increased significantly in China. In India, there was some increase as prices caught up with export prices, continuing the trend of 2016.

– Clear brine solutions: The demand in the market for clear brine solutions for oil and gas drilling was relatively low compared to pre-2016 yet higher than the demand in 2016. Asia was the main source of growth.

– Biocides: The global supply was affected by the environmental production constrains set in China. As a result, demand for some of ICL's products was higher in the second half of 2017 and prices have increased.

– Inorganic bromides: As of April 2016, the new regulations for mercury emission control in the US are fully effective, meaning that all coal power plants are required to comply with the rules. Nevertheless, low natural gas prices and old coal power plant retirements, decreased the demand. This trend is expected to continue. In addition, there was a moderate increase in demand for additional bromine-based products as a result of improving demand in the agrochemicals markets.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

Main developments and ICL's business environment: (Cont.)

<u>Industrial Products</u> (Cont.)

Set forth below are trends of the main activities in this business unit (Cont.)

– Phosphorous-based industrial compounds: overall stable demand following GDP growth. In developing countries, growth is higher due to increased rates of establishment of power stations.

– Organic bromine compounds: Overall stable demand following GDP growth and improvement in the agrochemical demand.

– The demand for magnesia products showed a slight increase due to the trend towards healthy food and the use of magnesia products in food and food supplements and for other industrial applications.

– Solid $MgCl_2$, Pure & packed KCl: 2017, similar to 2016, was characterized by a mild winter in the eastern parts of USA which affected our deicing $MgCl_2$ products. There was a slight growth in the demand for technical grade KCl for the oil drilling market. Other main parts of the business remained stable.

<u>Advanced Additives</u>

– The Advanced Additives business line benefited from strong performance of the P_2O_5 chain despite increasing global competitive pressure. Sales of salts and acids to new customers and additional volumes to existing customers in Europe more than offset negative impacts of low priced Chinese imports and the phosphate ban in the auto-dishwasher industry.

– Continued growth of the P_2O_5 business in China was driven by YPH JV's increased local market share for acid. While fierce competition in North America has negatively impacted the sales of salts and acids in this region, revenues in South America remained stable despite the ongoing recession.

– The Fire Safety sub-business line benefited from a record season of the wildfire business in North America, as well as from growing business in Class B foam.

– The oil additives (P_2S_5) business also increased compared to the prior year due to strong demand of key customers.

– In December 2017, ICL announced the sale of the fire safety and oil additives (P_2S_5) businesses to SK Capital for approximately $1 billion. The sale is expected to close in the first half of 2018, subject to customary closing conditions and regulatory approvals[2]. For additional information on divestitures currently in progress, see "Section 8.7 in the Description of the Corporation's Business for 2017.

[2] The estimates regarding completion of the transaction 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, in a case of a significant unfavorable change, as this term is defined in the sale agreement, a failure to receive all the required regulatory approvals for completion of the transaction, or to the extent the internal reorganization process in the ICL companies related to the sale are not completed on time or at all.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

Main developments and the business environment: (Cont.)

Food Specialties

– During 2017, the demand for organic, protein enriched and healthier food products grew. Based on its increased R&D activities, the business line was able to supply customers with a more diversified and customized product portfolio.

– Regarding our dairy protein business, ICL was able to further diversify the customer base and partially offset the unfulfilled growth and destocking activities of a major infant food customer.

– Another important trend ICL Food Specialties focuses on is the vegetarian and flexitarian consumer behavior, regarding which ICL Food Specialties has launched its ROVITARIS® line for meat replacements and is continuously working on strategic partnerships to extend the market activities.

– ICL Food Specialties has identified an increasing demand for healthier food and clean label declaration in the industry, which led, in response, to new developments in its product portfolio.

– The Food Phosphates and Multi-Ingredient Blends business encountered headwinds in their core markets in North America and Europe due to increasing competition and excess capacity in the market.

Specialty Solutions

Results of operations for the period October – December 2017

	Industrial Products	Advanced Additives *	Food Specialties	Setoffs	Total	
	Millions of dollars					
Total sales in Q4 2016	**283**	**173**	**151**	**(6)**	**601**	
Quantity	6	17	(7)	3	19	⬆
Price	9	4	1	(1)	13	⬆
Exchange rate	5	5	6	2	18	⬆
Total sales in Q4 2017	**303**	**199**	**151**	**(2)**	**651**	

* The results of the activities set forth below include the result of ICL's fire safety and oil additives (P_2S_5) business, the sale of which is expected to be completed during 2018[3]. For additional information regarding businesses being sold – see Section 8.7 to the Description of the Corporation's Business for 2017.

Quantity – the increase derives mainly from an increase in quantities sold in the fire safety and acids sub-business lines of ICL Advanced Additives, and quantities of bromine-based flame retardants sold in ICL

[3] The estimates regarding completion of the sale 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, a significant change for the worse, as defined in the sale agreement, to the extent that all or some of the required regulatory approvals are not received, or if the internal reorganization of ICL companies pursuant to the sale agreement is not completed on time or at all.

Industrial Products. This increase was partly offset by a decrease in clear brine solutions in ICL Industrial Products and from food phosphates and multi-ingredient blends quantities sold in ICL Food Specialties.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

Specialty Solutions (Cont.)

Results of operations for the period October – December 2017: (Cont.)

Price – the increase derives mainly from an increase in the selling prices of bromine-based industrial products in ICL Industrial Products and acids prices in ICL Advanced Additives.

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

Analysis of operating income

	$ millions	
Total operating income – 4th quarter 2016	**121**	
Quantity	7	↑
Price	13	↑
Exchange rate	(2)	↓
Raw materials	(1)	↓
Energy	(1)	↓
Transportation	1	↑
Operating and other (expenses) income	(24)	↓
Total operating income – 4th quarter 2017	**114**	

Quantity – the increase derives mainly from quantities sold in the fire safety sub-business line of ICL Advanced Additives, and bromine-based industrial products of ICL Industrial Products. The increase was partly offset by a decrease in the quantities sold of food phosphates and multi-ingredient blends in ICL Food Specialties.

Price – the increase derives mainly from an increase in the selling prices of bromine-based industrial products in ICL Industrial Products and acid prices in ICL Advanced Additives.

Other – the decrease derives from, among other things, a bad debt provision, an increase in royalties paid as a result of the increase in sales and inventory write-offs during the quarter, together with income related to employee benefits recorded in the corresponding quarter last year.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

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

Results of operations for the period January – December 2017:

	Industrial Products	Advanced Additives *	Food Specialties	Setoffs	Total
	Millions of dollars				
Total sales YTD 2016	**1,120**	**798**	**659**	**(24)**	**2,553**
Quantity	57	85	(67)	7	82
Price	12	(7)	(1)	–	4
Exchange rate	4	1	5	1	11
Total sales YTD 2017	**1,193**	**877**	**596**	**(16)**	**2,650**

* The results of the activities set forth below include the result of ICL's fire safety and oil additives (P_2S_5) business, the sale of which is expected to be completed during 2018[4]. For additional information regarding businesses being sold – see Section 8.7 to the Description of the Corporation's Business for 2017.

<u>Quantity</u> – the increase derives mainly from an increase in quantities sold in the fire safety, acids and oil additives (P_2S_5) sub-business lines of ICL Advanced Additives, and an increase in the quantities of bromine-based industrial products sold together with bromine-based flame retardants and clear brine solutions in ICL Industrial Products. This increase was partly offset by a decrease in dairy protein quantities sold together with a decrease in the quantities sold of food phosphates and multi-ingredient blends businesses (mainly in North America and Russia) in ICL Food Specialties.

<u>Price</u> – the increase derives mainly from an increase in the selling prices of phosphorous-based flame retardants and bromine-based industrial products in ICL Industrial Products, partly offset by a decrease in acid prices in ICL Advanced Additives.

<u>Exchange rate</u> – the increase derives mainly from the upward revaluation of the euro against the dollar compared to the corresponding period last year.

[4] The estimates regarding completion of the sale 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, a significant change for the worse, as defined in the sale agreement, to the extent that all or some of the required regulatory approvals are not received, or if the internal reorganization of ICL companies pursuant to the sale agreement is not completed on time or at all.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

Specialty Solutions (Cont.)

Results of operations for the period January – December 2017 (Cont.)

Analysis of operating income

	$ millions	
Total operating income – January–December 2016	**534**	
Quantity	52	⬆
Price	4	⬆
Exchange rate	(15)	⬇
Raw materials	19	⬆
Energy	(2)	⬇
Transportation	(1)	⬇
Operating and other (expenses) income	(37)	⬇
Total operating income – January– December 2017	**554**	

Quantity – the increase derives mainly from an increase in products sold in the fire safety, acids and oil additives (P_2S_5) sub-business lines in ICL Advanced Additives, and the quantities sold of bromine-based industrial products and bromine-based flame retardants together with clear brine solutions in ICL Industrial Products. This increase was partly offset by a decrease in the quantities of dairy proteins sold in ICL Food Specialties.

Price – the increase derives mainly from an increase in the selling prices of phosphorous-based flame retardants and bromine-based industrial products in ICL Industrial Products, partly offset by a decrease in acid prices in ICL Advanced Additives.

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

Raw materials – the increase derives mainly from a decrease in sulphur prices used for products of ICL Advanced Additives.

Other – the decrease derives from, among other things, an increase in royalties paid as a result of the increase in sales, extension of a work agreement in ICL Industrial Products, a bad debt provision and income related to employment benefits recorded in the corresponding period last year.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

Main developments and ICL's business environment:

<u>**Essential Minerals**</u>

– There is mutual dependency between the amount of available arable land, the amount of food needed for the population, and the use of fertilizers. Natural population growth, changes in food consumption habits (a shift to richer nutrition, largely based on animal protein, which increases grain consumption) resulting from the rising standard of living, mainly in developing countries, and environmental-quality considerations along with the aspirations of certain western countries to reduce dependence on oil imports, which have strengthened the trend of shifting to production of fuel from agricultural products (bio-fuels), affect the increase in global consumption of grains (cereals, rice, soybean, corn, etc.). These trends have led to increased planting of grain crops worldwide and higher yields per unit of agricultural land, mainly through the increased application of fertilizers.

– Based on the WASDE report published by the USDA in February 2018, the grain stock to use ratio for 2017/2018 agricultural year is expected to decrease slightly to 24.7%, compared with 25.3% at the end of the 2016/2017 agricultural year, and compared with 25.7% in the 2015/2016 agricultural year[5]. This level is still relatively high and as a result grain prices are at a ten-year low level, adversely affecting farmers' incentive to purchase fertilizers. However, the affordability of fertilizers is still favorable, which is reflected in good demand for potash.

– According to the UN's Food and Agriculture Organization (FAO) forecast from December 2017, global cereal production in 2017 amounted to 2,627 million tons, 16.8 million tons (0.6%) higher than 2016. The production of coarse grains amounted to 1,371 million tons, about 24 million tons (1.8%) higher than 2016.

– The specialty fertilizers market recovered in 2017, following the challenges which impacted 2016. In recent months prices also started to recover moderately. This trend is expected to continue in 2018[6].

– Following an administrative decision made by ICL's management with respect to the structure of ICL, in 2017 the ICL Specialty Fertilizers business line was moved to the Essential Minerals segment.

– In 2017, the total sales of the ICL Essential Minerals segment were $3,008 million, constituting 56% of ICL's total sales (including sales to the Specialty Solutions segment), while the operating income of ICL Essential Minerals totaled $359 million, constituting 39% of the operating income attributable to the segments.

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[5] 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, severe changes in the weather, prices of products, commodities and grains, prices of inputs, technological developments, transportation and energy costs, and 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.

[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, fluctuations in the world agricultural and energy markets, particularly in the target markets for ICL's products, including, among other things, changes in the levels of supply and demand, severe changes in the weather, prices of products, prices of fuel, products, commodities and grains, prices of inputs, energy costs, and 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.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

Main developments and ICL's business environment: (Cont.)

Essential Minerals (Cont.)

Potash

- The average potash prices in 2017 were slightly higher than the prices in 2016, following some tightness in the markets resulting from increased global trade. The signing of supply contracts with Indian and Chinese customers in the second half of the year at increased prices added to suppliers' confidence and spot prices across the globe followed. The market is now waiting to see whether the contract in China will be concluded soon or will be delayed.

- According to CRU (Fertilizer Week Historical Prices) the average CFR Brazil price (all supply sources) for 2017 was $263 per ton, $31 per ton (13.5%) higher than in 2016.

- Imports of potash into China in 2017 totaled 7.5 million tons, an increase of about 10.5% compared with imports of 6.8 million tons in 2016. The annual contract for supply of potash to China, for financial year 2017/2018, was concluded in July at a price increase of $11 per ton. During July 2017, ICL signed potash supply contracts with its Chinese customers, in the total amount of 925 thousand tons (not including additional optional quantities), at a price of $230 per ton CFR (5% over the 2016 contract prices), for delivery up to the end of 2017.

- According to the FAI (Fertilizer Association of India), potash imports into India during 2017 amounted to 4.327 million tons, a 25% increase over the imports in 2016. The annual contract for the supply of potash to India, for the financial year 2017/2018, was signed in July 2017 at a price increase of $13 per ton. In August 2017, ICL signed contracts for supply of potash with its Indian customers, in the total amount of 750 thousand tons (including optional quantities). The contract prices rose by about 5% compared with 2016 contract prices.

- Demand for potash in Brazil was strong. According to ANDA (Brazilian National Fertilizer Association), potash imports into Brazil during 2017 amounted to 9.23 million tons, a 5% increase over the imports in 2016, and an all-time potash import record for the country.

- According to the report of the IFA (International Fertilizer Association) from June 2017, the aggregate global demand for potash for agricultural and other uses is projected to grow at an average annual rate of 2.1%, from 42.0 million tons of K_2O in 2017 up to 45.6 million tons of K_2O in 2021.

- Three fertilizer companies are currently in the process of commissioning new (Greenfield) mines. However, currently their impact on the market is negligible due to delays and ramp-up time.

- Polysulphate™ – during 2017, ICL continued to accelerate the transition from extracting and producing potash to producing Polysulphate™ at its ICL UK mine and is acting to expand the Polysulphate™ market by means of, among other things, development of a wide range of innovative Polysulphate™ products.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

Main developments and ICL's business environment: (Cont.)

Essential Minerals (Cont.)

Magnesium

– Global demand for magnesium remains constrained in China, Brazil and Europe while prices are under pressure due to increased Chinese exports, as well as imports from Russian, Kazakh and Turkish producers to the U.S.

– Recently, a number of decisions were made, that encourage vehicle weight reduction mainly due to environmental protection requirements. As a result, there has been an increase in the demand for products based on magnesium alloys.

– Although several projects have been proposed, non-Chinese primary magnesium production is expected to remain below 16% of the global supply[7].

– During 2017, US Magnesium curtailed its expansion due to the loss of a significant customer. On the other hand, towards the end of the year there appeared to be a resumption of aluminum production in the U.S., where the aluminum producers constitute 37% of the primary magnesium consumers (pure magnesium and primary-based-alloy magnesium). This derives mainly from a restart by Alcoa of 136 thousand tons of primary aluminum capacity and Braidy Industries' planned 370 thousand tons per year aluminum rolling mill. This is the first announcement of an increase in US production in decades, which indicates a trend of improvement in the US magnesium market.

– Pure magnesium prices in the US and Brazilian markets remained under pressure as a consequence of the aforementioned change in the supply dynamics. At the end of 2017, Chinese pure magnesium traded in the range of $2,320 - $2,370 per ton (FOB Chinese port), an increase of about 4% compared to 2016.

Phosphate

– The phosphate market appeared to have reached bottom towards the end of the third quarter, after which, prices started to rise, initially driven by raw material costs, such as ammonia and sulphur. However, moderation in sulphur prices during December 2017 has not yet resulted in reversal of phosphate fertilizers prices. This could be explained by healthy demand in the U.S., Brazil and Pakistan, and limited export volumes from Chinese producers due to their focus on the domestic market.

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[7] The estimates regarding the scope of the manufacture of primary magnesium among the magnesium manufacturers, except for the Chinese manufacturers in this paragraph constitute "forward-looking" information, and are based on, among other things, estimates of the management of ICL according to 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, energy costs, new products, and may be impacted by changes in regulation and by actions taken governments, manufacturers and consumers, as well as changes in the business environment.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

Main developments and ICL's business environment: (Cont.)

Essential Minerals (Cont.)

Phosphate (Cont.)

– Sulphur prices rallied during the third and the major part of the fourth quarter due to increased demand and limited supply. At the end of November, prices CFR China passed the $200 per ton mark, but from that point in time prices started to decline and at the beginning of February 2018 decreased by an average of $60-$70 per ton.

– A significant expansion is expected in the production of the Moroccan producer OCP and Saudi Arabian producer Ma'aden, while Mosaic has announced the idling of an old plant.

– Finished phosphate (MAP,DAP and TSP) exports from China, which decreased by 18% in 2016 to about 9.5 million tons, increased to 10.1 million tons in 2017, about 11% over 2016, but still lower than the record of 11.6 million tons exported in 2015. Continued pressure by Chinese environmental authorities is resulting in several plant closures and additional expenses, which is expected to limit further growth in exports, and possibly result in some decline over the coming years[8].

– During 2017, imports of phosphate fertilizers (DAP, MAP, TSP and SSP) into Brazil reached 7.26 million tons, constituting an increase of 10.4%, compared with imports in 2016.

– Imports into India (the main importer of DAP) were low due to high inventories and increasing prices. According to the FAI (Fertilizer Association of India), DAP imports during 2017 decreased by 6.3% to 4 million tons. However, domestic DAP production increased by 9.7%, to 4.8 million tons, using imported rock and acid.

– The demand in the U.S. was firm. According to TFI (The Fertilizer Institute), DAP imports in January to December 2017 increased by 37% to 805 thousand tons, MAP imports increased by 22% to 1,380 thousand tons.

– According to the report of the IFA (International Fertilizer Association) from June 2017, the global demand for phosphoric acid (which constitutes a raw material for the main phosphate fertilizers) is forecasted to grow at an annual rate of 1.7%, from 45.7 million tons of phosphorous pentoxide (P_2O_5) in 2017 to 48.8 million tons of phosphorous pentoxide up to 2021[9].

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8 The estimates regarding the scope of the exports of finished phosphate products from China in this paragraph constitute "forward-looking" information, and are based on, among other things, estimates of the management of ICL according to 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 regulation and by actions taken governments, manufacturers and consumers, and they may change due to, among other things, changes in the levels of supply and demand, energy costs, transportation costs, changes in the currency exchange rates and changes in the business environment.

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 in the target markets for ICL's products, including, among other things, changes in the levels of supply and demand, severe changes in the weather, prices of products, commodities and grains, prices of inputs, technological developments, transportation and energy costs, and 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.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

Main developments and ICL's business environment: (Cont.)

Essential Minerals (Cont.)

Phosphate (Cont.)

– According to CRU (Fertilizer Week Historical Prices), the average price of DAP in 2017 was $368 per ton FOB Morocco, an increase of 2% over 2016.

– The phosphate rock prices continued to decline, mainly as a result of excess availability from Morocco. According to the CRU, the average price of phosphate rock (68%-72% BPL) in 2017 was $90 per ton FOB Morocco, 20% decrease over 2016.

– The Moroccan producer OCP has agreed to the first quarter of 2018 phosphoric acid contracts with its Indian joint venture partners at $678 per ton P_2O_5 CFR, an increase of $111 per ton from the price in the second half of 2017.

– Market observers such as CRU and FertEcon are forecasting moderate global price recovery starting next year due to lower exports from China and higher imports to India.

ICL Specialty Fertilizers

ICL Specialty Fertilizers managed to adapt the selling prices to the decrease in raw materials prices and maintain its margin percentages. The increase in sales, driven by an increase in the quantities sold, along with the cost structure optimization measures taken by ICL Specialty Fertilizers' management, resulted in an increase in gross profit (by 1% for the full year).

Results of operations for the period October – December 2017

	Potash and Magnesium	Phosphate	Specialty Fertilizers	Eliminations	Total	
	Millions of dollars					
Total sales in Q4 2016	**415**	**263**	**137**	**(15)**	**800**	
Quantity	(41)	(38)	16	(15)	(78)	⬇
Price	32	11	2	(3)	42	⬆
Exchange rate	8	6	1	1	16	⬆
Total sales in Q4 2017	**414**	**242**	**156**	**(32)**	**780**	

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

Price – the increase derives mainly from an increase in potash selling prices.

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

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

Essential Minerals (Cont.)

Results of operations for the period October – December 2017 (Cont.)

Operating income

	$ millions	
Total operating income – 4th quarter 2016	**103**	
Quantity	(1)	⬇
Price	42	⬆
Exchange rate	(13)	⬇
Raw materials	(11)	⬇
Energy	(6)	⬇
Transportation	9	⬆
Operating and other (expenses) income	1	⬆
Total operating income – 4th quarter 2017	**124**	

Quantity – the quantity-related operating income was impacted by the composition of potash production sites and product-mix throughout the business lines.

Price – the increase derives mainly from an increase in potash selling prices.

Exchange rate – the decrease derives mainly from the upward revaluation of the shekel against the dollar increasing production costs.

Raw materials – the decrease derives mainly from an increase in sulphur prices (used in the green phosphoric acid production in ICL Phosphate).

Energy – the decrease derives mainly from higher electricity charges in Europe.

Transportation – the increase derives mainly from a decrease quantities sold, partly offset by an increase in marine transportation prices.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

Essential Minerals (Cont.)

Results of operations for the period January – December 2017

	Potash and Magnesium	Phosphate	Specialty Fertilizers	Eliminations	Total
	Millions of dollars				
Total sales Jan.–Dec. 2016	**1,338**	**1,163**	**661**	**(126)**	**3,036**
Quantity	1	(73)	46	8	(18)
Price	41	(37)	(12)	(1)	(9)
Exchange rate	3	(1)	(3)	–	(1)
Total sales Jan.–Dec. 2017	**1,383**	**1,052**	**692**	**(119)**	**3,008**

Quantity – the decrease derives mainly from a decrease in phosphate fertilizers and phosphate rock quantities sold. This decrease was partly offset by an increase in specialty agriculture products and phosphoric acid quantities sold.

Price – the decrease derives mainly from a decline in phosphate fertilizers and phosphoric acid selling prices and from lower specialty agriculture products' prices. This decrease was partly offset by an increase in potash selling prices.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

Essential Minerals (Cont.)

Results of operations for the period January – December 2017 (Cont.)

Analysis of operating income

	$ millions	
Total operating income – January–December 2016	**398**	
Quantity	7	↑
Price	(9)	↓
Exchange rate	(31)	↓
Raw materials	6	↑
Energy	(19)	↓
Transportation	(11)	↓
Operating and other (expenses) income	18	↑
Total operating income – January–December 2017	**359**	

Quantity – the quantity-related operating income was impacted by the composition of potash production sites and product-mix throughout the business lines.

Price – the decrease derives mainly from a decline in phosphate fertilizers and phosphoric acid selling prices and from lower specialty agriculture products' prices. This decrease was partly offset by an increase in potash selling prices.

Exchange rate – the decrease derives mainly from the upward revaluation of the shekel against the dollar increasing production costs.

Raw materials – the increase derives mainly from a decline in commodity fertilizers prices (used for products of ICL Specialty Fertilizers).

Energy – the decrease derives mainly from higher energy prices in Israel and higher electricity charges in Europe.

Transportation – the decrease derives mainly from an increase in marine transportation prices, partly offset by a decrease in quantities sold.

Operating and other (expenses) income – the increase derives mainly from a provision recorded in the corresponding period last year resulting from extension of the employment agreement in ICL Dead Sea and a capital gain due to sale of an office building in 2017. This increase was partly offset by an environment-related provision recorded in 2017.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

Essential Minerals (Cont.)

Additional Information – Essential Minerals

Phosphate – Production and Sales

	10–12/2017	10–12/2016	1–12/2017	1–12/2016
	Thousands of Tons			
Phosphate rock				
Production of rock	**1,098**	1,301	**4,877**	5,744
Sales*	**140**	157	**498**	1,032
Phosphate rock used for internal purposes	**1,030**	1,054	**4,300**	4,099
Fertilizers				
Production of rock	**555**	691	**2,094**	2,725
Sales*	**501**	750	**2,291**	2,645

* To external customers.

October – December 2017

Production of phosphate rock – in the fourth quarter of 2017, production of phosphate rock was lower by 203 thousand tons than in the corresponding quarter last year. The decrease derives mainly from adjusting production volumes to the business environment at ICL Rotem, which included a shutdown of the Zin plant during part of the fourth quarter of 2017. The plant returned to activity towards the end of the fourth quarter.

Sales of phosphate rock – the quantity of phosphate rock sold in the fourth quarter of 2017 was 17 thousand tons lower than in the corresponding quarter last year, due to challenging market environment and unattractive prices.

Production of phosphate fertilizers – in the fourth quarter of 2017, production of phosphate fertilizers was lower by 136 thousand tons than in the corresponding quarter last year, mainly due to decreased production in YPH as a result of the shift to specialty products.

Sales of phosphate fertilizers – quantity of phosphate fertilizers sold in the fourth quarter of 2017 was 249 thousand tons lower than in the corresponding quarter last year, mainly due to a decrease in sales to Asia.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

Essential Minerals (Cont.)

Additional Information – Essential Minerals (Cont.)

Phosphate – Production and Sales (Cont.)

January – December 2017

Production of phosphate rock – in the twelve months ended on December 31, 2017, production of phosphate rock was lower by 867 thousand tons than in 2016, mainly due to adjusting production volumes to the business environment at ICL Rotem, which included a shutdown of the Zin plant during part of the third quarter and the fourth quarter of 2017. The plant returned to activity towards the end of the fourth quarter. In addition, the production of phosphate rock decreased due to a production optimization process in YPH.

Sales of phosphate rock – the quantity of phosphate rock sold in the twelve months ended on December 31, 2017 was 534 thousand tons lower than in 2016, due to increased use of phosphate rock for internal fertilizer production in China, as well as a challenging market environment and unattractive prices.

Production of phosphate fertilizers – in the twelve months ended on December 31, 2017, production of phosphate fertilizers was lower by 631 thousand tons than in 2016, mainly due to decreased production in YPH as a result of the shift to specialty products.

Sales of phosphate fertilizers – the quantity of phosphate fertilizers sold in the twelve months ended on December 31, 2017 was 354 thousand tons lower than in 2016, mainly due to a decrease in sales to Asia.

Potash – Significant Data

	10–12/2017	10–12/2016	1–12/2017	1–12/2016
	Thousands of Tons			
Sales to external customers	**361**	369	**1,181**	1,134
Sales to internal customers*	**40**	34	**149**	151
Total sales	**401**	403	**1,330**	1,285
Gross profit	**198**	167	**555**	513
Operating income attributable to potash business	**124**	94	**303**	291
Capital expenses	**114**	66	**256**	305
Depreciation and amortization	**35**	27	**121**	119
Average potash selling price – FOB (in $)	**222**	202	**219**	211

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

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

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

Essential Minerals (Cont.)

Additional Information – Essential Minerals (Cont.)

Potash – Significant Data (Cont.)

	10–12/2017	10–12/2016	1–12/2017	1–12/2016
	Thousands of Tons			
Production	**1,303**	1,303	**4,773**	5,279
Sales to external customers	**1,375**	1,632	**4,687**	4,818
Sales to internal customers	**125**	92	**352**	347
Total sales (including internal sales)	**1,500**	1,724	**5,039**	5,165
Closing inventory	**400**	666	**400**	666

October – December 2017

Production – the potash production level in the fourth quarter of 2017 was stable compared to the corresponding quarter last year.

Sales to external customers – the quantity of potash sold to external customers in the fourth quarter of 2017, was 257 thousand tons lower than in the corresponding quarter last year, mainly due to a decrease in potash sales to almost all of the target markets.

January – December 2017

Production – production of potash in the twelve months ended on December 31, 2017, was 506 thousand tons lower than in 2016, mainly due to decreased production at ICL UK as a result of the transition from extracting and producing potash to producing polysulphate. The lower production in the first quarter of 2017, caused by an operational breakdown in the mine tailings channel, was renewed during the second quarter and the overall production level was recovered during the course of the year. In addition, decreased production was recorded in Spain as a result of lower ore grade in the current mining area and in ICL Dead Sea as a result of maintenance operations at the plant in Sodom.

Sales to external customers – the quantity of potash sold to external customers in the twelve months ended on December 31, 2017, was 131 thousand tons lower than in 2016, mainly due to a decrease in sales to Israel and Europe, which was partially offset by an increase in sales to South America and Asia.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

The following table details ICL's cash flows in the periods designated:

	2017	2016
	$ millions	
Net cash provided by operating activities	**847**	966
Net cash used in investing activities	**(333)**	(800)
Net cash used in financing activities	**(511)**	(239)

Operating activities

The cash flows provided by operating activities are a significant source of liquidity for ICL. In 2017, the cash flows from operating activities amounted to $847 million, compared with $966 million last year. This decrease derives mainly from an increase in payments of taxes along with higher cash payments made due to retirement of employees in the current year as well as a lower reduction in the working capital, mainly from an increase in sales in ICL Industrial Products and in the fire safety sub-business line in ICL Advanced additives. In addition, there were cash payments relating to discontinuance of the activities of Allana Afar in Ethiopia and the global ERP project (Harmonization Project). The cash flows from operating activities along with the increase in the financial liabilities, constituted the source for financing payment of the dividends and investments in property, plant and equipment.

Investing activities

The net cash used in investing activities in 2017 amounted to $333 million, compared with $800 million in 2016. The decrease in the cash used in investing activities derives, mainly, from proceeds received from selling an equity-accounted investee (IDE), in the amount of $168 million, a decrease in the cash flows used for investment in property, plant and equipment, lower purchases of intangible assets due to the discontinuance of the global ERP project (Harmonization Project) along with the acquisition of 15% of the shares of YTH made last year, in exchange for a consideration of about $250 million.

Financing activities

The net cash used in financing activities in 2017 amounted to $511 million, compared with $239 million in 2016. The increase in the net cash used by financing activities is mainly due to repayment of long term loans, net, in the amount of $421 million, compared with the amount of $87 million made last year, along with higher dividend payments to ICL's shareholders, in the amount of $75 million compared with 2016. On the other hand, there was an increase in receipt of short-term credit from banks and others, net, in the amount of $133 million, compared with the prior year.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

The following table details ICL's cash flows in the periods designated: (Cont.)

Financial liabilities

As at December 31, 2017, ICL's non-current liabilities consisted of loans from financial institutions in the amount of $872 million and debentures in the amount of $1,516 million. As at December 31, 2017, ICL had $1,568 million of unutilized long-term credit lines. As at March 1, 2018, ICL withdrew an additional $320 million from its existing credit facilities.

A portion of ICL's loans bear variable interest rates based on the short-term LIBOR rate for a period of one to twelve months, plus a margin as defined in each loan agreement. Therefore, ICL is exposed to changes in the cash flows arising from changes in these interest rates. Some of the loans and debentures issued by ICL bear fixed interest for the entire loan period. ICL hedges part of this exposure using financial instruments to fix the range of the interest rates, in order to conform the actual interest-rate structure to the projections regarding the anticipated developments in the interest rates.

For a description of the financial covenants determined for ICL in the loan agreements and the possible risk regarding compliance with these financial covenants – see Note 16C(2) to the Corporation's consolidated financial statements.

Dividends distributed to ICL's shareholders

Date of decision of the Board of Directors to distribute the dividend	Actual date of the dividend distribution	Gross amount of the dividend distributed	Net amount of the dividend distributed	Amount of the dividend per share
		In millions of $		
March 19, 2015	April 29, 2015	59.5	59.5	0.05
May 12, 2015	June 23, 2015	151	151	0.12
August 11, 2015	September 10, 2015	52.5	52.5	0.04
November 11, 2015	December 16, 2015	84	84	0.07
March 15, 2016	April 18, 2016	67	67	0.05
May 17, 2016	June 22, 2016	35	35	0.03
August 9, 2016	September 27, 2016	60	60	0.05
November 22, 2016	January 4, 2017	60	60	0.05
February 14, 2017	April 4, 2017	57	57	0.04
May 9, 2017	June 20, 2017	34	34	0.03
August 2, 2017	September 13, 2017	32	32	0.02
November 7, 2017	December 20, 2017	57	57	0.04
February 13, 2018 (after the reporting date)*	March 14, 2018	70	70	0.05

(*) The record date is February 28, 2018 and the payment date is March 14, 2018.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Israel Chemicals Ltd. (Cont.)

Corporate governance, sustainability and contributions

For information regarding corporate governance, sustainability and contributions – see Section 8.9 of the Description of the Corporation's Business for 2017.

Significant events occurring between the signing date of ICL's financial statements on March 6, 2018 and the publication date of the Report of the Board of Directors for purposes of inclusion in the Annual Report of Israel Corporation for 2017

A. Subsequent to the date of the report, on March 11, 2018, a subsidiary of ICL, Periclase Dead Sea Ltd. (in voluntary liquidation), was served with an application for certification of a class action against it and another ICL subsidiary, Rotem Amfert Negev Ltd. ("Rotem") (the two companies, jointly – "the Respondents"), filed in the District Court in Be'er Sheva by several plaintiffs, on behalf of two represented classes: the first class constituting of the entire public in the State of Israel, and the second constituting visitors of Bokek stream and the Dead Sea, who were exposed to and came into contact with the Bokek stream (the "Applicants"). According to the Applicants, the Respondents have allegedly caused continuous, severe and extreme environmental hazards through pollution of the "Judea group – Zafit formation" groundwater aquifer (the "Aquifer") and the Ein Bokek spring with industrial wastewater, and in so doing the Respondents have violated various provisions of property law, land 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. Within the application the Court was requested to order the Respondents to eliminate the proprietary violation in reference to the Aquifer and Bokek stream by restoration thereof in a manner to be determined and which was not specified in the application, and therefore the financial implications of such requested relief are unknown. Furthermore, the Court was requested to order the Respondents to pay to the public restitution and compensation in an estimated amount of NIS 1.4 billion (about $411.7 million). ICL is reviewing the application and considering its legal steps.

B. Subsequent to the date of the report, on March 21, 2018, the rating company, Fitch Ratings, confirmed the international credit rating of ICL (BBB–), with a stable rating outlook.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Oil Refineries Ltd.

In the period of the report, the trend that began in December 2016, of an increase in the average Brent crude oil price, continued and was affected by implementation of the decision by OPEC member countries to limit production. The Brent price, which ranged in the period of the report between $50–$60 per barrel, is attributed to the balancing of oil production as a result of OPEC production limits, on one hand, and the increased output of non-OPEC countries and the U.S., on the other.

Towards the end of 2017, the Brent price rose so that its price as at the date of the report was set at $67 per barrel for the following main reasons: increased demand for oil coupled with refining facilities returning to normal production following Hurricane Harvey, continuing OPEC and Russian commitment to the program to reduce output and the malfunction in the North Sea oil pipeline.

In the period of the report, the price of Ural crude oil, which is heavy crude oil, weakened compared to Brent prices (which is light crude oil), with average disparity of about $1 per barrel, compared with about $2 per barrel in the corresponding period last year. The difference in the price of heavy crude compared with light crude was extremely volatile, ranging between $0 and $2 per barrel, due to the increase in the supply of Ural crude oil substitutes from outside the Mediterranean Basin region.

In the period of the report, the crude oil futures market shifted from contango to backwardation. The annual average contango level was at about $0.1 per barrel per month. In the fourth quarter of 2017 the average level of market backwardation was at about $0.3 per barrel per month.

The Ural margin strengthened in the period of the report compared with the corresponding period last year. The main factors contributing to this strengthening are the planned and unplanned shutdowns of refining facilities together with an increase in demand for distillates. At the beginning of September 2017, Hurricane Harvey caused production at the refineries in the Gulf of Mexico and in the United States to stop. As a result, the Ural margin reached about $10.8 per barrel, a record high since the end of 2008. By the end of September, refining capacity in the affected area had returned to normal, and Ural margins declined to between $5–$6 per barrel. In the fourth quarter of 2017, the Ural margin fell to an average of about $4.1 per barrel following the sharp rise in the price of crude oil and a seasonal decline in the gasoline margin.

Raw material prices, used in the polymers activity, particularly naphtha prices, increased in the period of the report compared with the corresponding period last year, parallel to the increase in crude oil prices. The prices of the polymer products (polypropylene and polyethylene), increased in the period of the report compared with the corresponding period last year, parallel to the increase in raw material and energy prices. The increase in the prices of polypropylene compared with polyethylene was greater, among other things, as a result of the different behavior of the prices of propylene and ethylene, the raw materials used in the manufacture of polymers in Europe. In the period of the report the difference between the price of polypropylene and the price of naphtha was higher compared with the corresponding period last year and the difference between the price of polyethylene and the price of naphtha was lower compared to the corresponding period last year. This, while the volatility of the polypropylene and polyethylene prices are affected, among other things, by the prices of the raw materials for the production of polymers in Europe (propylene and ethylene). In September 2017 the Hurricane Harvey that hit the Gulf of Mexico in the U.S. caused a shutdown of the polymer facilities in the region and an increase in polymer margins during this period.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Oil Refineries Ltd. (Cont.)

Results of operations

ORL applies after making early adoption, the provisions of IFRS 9 (2013). The Corporation has not made early adoption of the said Standards, and it makes reconciliations to the books of ORL in its financial statements. The data below includes impacts from early adoption of the Standards, as stated.

ORL completed the twelve-month and three-month periods ended December 31, 2017, with income of about $262 million and about $78 million, respectively, compared with income of about $158 million and about $42 million, respectively, in the corresponding periods last year.

Without the impact of IFRS 9 (2013), ORL completed the twelve-month and three-month periods ended December 31, 2017, with income of about $235 million and about $66 million, respectively, compared with income of about $162 million and about $36 million, respectively, in the corresponding periods last year.

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 Ural margin, the accounting effects in the fuel segment are adjusted and presented in a way that allows a better comparison of the performance of the Fuels' segment to the Ural margin. 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.

Set forth below is a breakdown of selected figures from the reported consolidated statements of income after adjustment for accounting effects for the year and fourth quarter (USD millions):

	10-12.2017	10-12.2016	Change	2017	2016	Change
Revenue	**1,594**	1,252		**5,624**	4,321	
EBITDA	**165**	140	+27%	**620**	493	+30%
Depreciation	**(35)**	(37)	+18%	**(143)**	(129)	+26%
Other expenses, net	**(4)**	(14)		**(13)**	(34)	
Operating income	**126**	89	+42%	**464**	330	+41%
Financing expenses, net	**(34)**	(34)		**(136)**	(132)	
Income tax	**(14)**	(13)		**(66)**	(40)	
Net income	**78**	42	+86%	**262**	158	+66%
Fuel segment adjustments*	**(26)**	(19)		**(68)**	(66)	
Adjusted EBITDA	**139**	121	+15%	**552**	427	+29%
Adjusted operating income	**100**	70	+43%	**396**	264	+50%
Net adjusted income	**52**	23	+126%	**194**	92	+111%

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

In 2017 and 2016, periodic maintenance work was carried out on the facilities Group companies. In ORL's estimation, its total lost profits as a result of that stated above are about $69 million in 2017 and about $90 million in 2016.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Oil Refineries Ltd. (Cont.)

Results of operations – October – December 2017

Revenues in ORL's activity areas, including inter-segment sales

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.

	Revenues (USD millions)			**Average price of product mix (USD per ton)**		
	10-12.2017	**10-12.2016**	**Change**	**10-12.2017**	**10-12.2016**	**Change**
Fuels Segment	1,415	1,089	326	525	423	102(1)
Polymers Segment – Carmel Olefins	164	151	13(2)	1,323	1,193	130
Polymers Segment – Ducor	58	49	9(3)	1,375	1,141	234
Total Polymers Segment	**222**	**200**	**22**			
Aromatics Segment – Gadiv	136	96	40(4)	770	652	118
Adjustments and others	(179)	(133)	(46)			
Total consolidated income	**1,594**	**1,252**	**342**			

(1) Mainly due to an increase in the price of energy, parallel to an increase in the price of crude oil.

(2) Primarily due to an increase in selling prices.

(3) Primarily due to an increase in selling prices in the amount of USD 10 million.

(4) Mainly due to a decrease of USD 23 million in sales quantities offset by an increase of USD 15 million in selling prices.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Oil Refineries Ltd. (Cont.)

Results of operations – October – December 2017 (Cont.)

Set forth below are the adjustment components and the impact thereof on the EBITDA in the fuels' sector:

	10–12/2017	10–12/2016
	$ millions	
Increase (decrease) in the accounting income		
Income from timing differences (1)	**(29)**	(10)
Expenses from adjustment of value of inventory to market value, net (2)	**4**	18
Impacts of changes in fair value of derivatives and realizations (3)	**(1)**	(27)
Total adjustments in the fuels' segment	**(26)**	(19)

(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 December 31, 2017 the volume of inventory not secured with contracts is 480 thousand tons.

(2) Expenses (income) arising from changes in the accounting provision for adjustment of 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 (hedging transaction on the option allotted in the availability transaction and hedging of refining margins). The cumulative profit or loss with regard to these positions will be attributed to the adjusted EBITDA when disposed.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Oil Refineries Ltd. (Associated Company) (Cont.)

Results of operations for the period October through December 2017: (Cont.)

Analysis of the refining margins in the fuels' area and comparison thereof to the Ural margin

The following table summarizes the comparison of the refining margins of ORL and the Ural margin

	October–December	
	2017	**2016**
Accounting margin – dollar per ton	**67.7**	57.7
Adjustments in the fuels' segment – dollar per ton	**(10.0)**	(7.3)
Adjusted margin – dollar per ton	**57.7**	50.4
Adjusted margin – dollar per barrel	**7.9**	6.9
Ural margin – dollar per barrel	**4.1**	5.0

It is noted that there are differences in a number of parameters between ORL's refining margin and the Ural margin. These include composition of crude oil (ORL also refines crude oil types that are not Ural), composition and quality of products produced by the refineries, the energy source used for refining, and the difference generated due to the fact that the quote takes into account purchase and sale on the same day, while in practice, there is a gap between the purchase date of the crude and the selling date of distillates produced from the crude oil. Comparison to the Ural margin could provide insight in relation to development trends of ORL's refining margin, and does not constitute a precise parameter for estimating ORL's refining margin in the short term.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Oil Refineries Ltd. (Associated Company) (Cont.)

Results of operations for the period January – December 2017

Revenues in ORL's activity areas, including inter-segment sales

	Revenues (USD millions)			Average price of the product mix (USD / ton)		
	2017	**2016**	**Change**	**2017**	**2016**	**Change**
Fuels Segment	4,908	3,694	1,214	476	385	91(1)
Polymers Segment – Carmel Olefins	683	539	144(2)	1,270	1,211	59
Polymers Segment – Ducor	230	194	36(3)	1,302	1,105	197
Total Polymers Segment	**913**	**733**	**180**			
Aromatics Segment – Gadiv	381	395	(14)(4)	728	641	87
Adjustments and others	(578)	(501)	(77)			
Total consolidated income	**5,624**	**4,321**	**1,303**			

(1) Mainly due to an increase in the price of energy, parallel to an increase in the price of crude oil.

(2) The increase is mainly due to an increase in sales volume of USD 112 million following the periodic maintenance work carried out on Carmel Olefins facilities in 2016, an increase in selling prices of USD 23 million and income from insurance indemnification for loss of profits in an amount of USD 10 million.

(3) Primarily due to an increase in selling prices in the amount of USD 34 million.

(4) Primarily due to a decrease of USD 59 million in sales volume due to the periodic maintenance work on all of Gadiv's plants in the first quarter of 2017 offset by an increase in selling prices of USD 42 million.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Oil Refineries Ltd. (Associated Company) (Cont.)

Results of operations for the period January through December 2017: (Cont.)

Set forth below are the adjustment components and the impact thereof on the EBITDA in the fuels' sector:

	January–December	
	2017	2016
	$ millions	
Increase (decrease) in the accounting income		
Income from timing differences (1)	**(32)**	(27)
Expenses from adjustment of value of inventory to market value, net (2)	**–**	33
Impact of changes in fair value of derivatives and realizations (3)	**(36)**	(72)
Total adjustments in the fuels' segment	**(68)**	(66)

(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 December 31, 2017 the volume of inventory not secured with contracts is 480 thousand tons.

(2) Expenses (income) arising from changes in the accounting provision for adjustment of 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 (hedging transactions on future cash flow exposure for base inventory purchase and hedging of refining margins). The cumulative profit or loss with regard to these positions will be attributed to the adjusted EBITDA when disposed. In period of the report, most of this amount is due to non-cash disposal of the loss in positions relating to the purchase of basic inventories due to the termination of the available inventory transaction in the second quarter of 2017.

BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE PRINCIPAL INVESTEE COMPANIES: (Cont.)

Oil Refineries Ltd. (Associated Company) (Cont.)

Results of operations for the period January through December 2017: (Cont.)

Set forth below is table summarizing the comparison of ORL's refining margins to the Ural margin:

	January–September		
	2017	**2017 Proforma***	**2016**
Accounting margin – dollar per ton	**61.4**	**64.8**	52.9
Adjustments in the fuels' segment – dollar per ton	**(6.8)**	**(6.6)**	(7.5)
Adjusted margin – dollar per ton	**54.6**	**58.2**	45.4
Adjusted margin – dollar per barrel	**7.5**	**8.0**	6.2
Ural margin – dollar per barrel	**5.3**	**5.3**	4.0

* The preform margins for the period of the report shown in the table above were calculated in the following manner:

1. The estimate of the lost profits, in the amount of $61 million was added to ORL's actual refining margin in the period of the report, which is about $600 million (hereinafter – "the Adjusted Margin").
2. The Adjusted Margin was divided by the total number of barrels for the period of the report of 75.2 million barrels (the median number of barrels of crude oil and intermediate materials of 17.5 million barrels processed per quarter plus the actual number of barrels processed in the third and fourth quarters of 2017).

It is noted that there are differences in a number of parameters between ORL's refining margin and the Ural margin. These include composition of crude oil (ORL also refines crude oil types that are not Ural), composition and quality of products produced by the refineries, the energy source used for refining, and the difference generated due to the fact that the quote takes into account purchase and sale on the same day, while in practice, there is a gap between the purchase date of the crude and the selling date of distillates produced from the crude oil. Comparison to the Ural margin could provide insight in relation to development trends of ORL's refining margin, and does not constitute a precise parameter for estimating ORL's refining margin in the short term.

DEBENTURES

Information regarding debentures issued by Israel Corporation

Debenture series	Original issuance date	Par value on issuance date	Par value outstanding	Balance per books	Accrued interest	Stock market/ fair value	Interest rate	Date of payment of principal interest	Trustee
			NIS millions		$ millions				
Series 7	3/12/07	394							
Traded on	4/25/07	95							
the stock	6/05/07	331							
exchange	7/11/10	467							
	6/26/12	303							
	7/23/12	144							
	8/27/15	343							
	11/30/15	387	1,971	697	10	740	4.95%	4 annual payments beginning 3/12/18. Semi-annual interest 3/12, 9/12. Base index 102.76.	Reznik Paz Nevo
Series 10 Traded on the stock exchange	5/26/16	675	675	195	1	212	4.10%	6 unequal annual payments beginning 5/31/19 Semi-annual interest 11/30, 5/31	Hermatik
Series 11 Traded on the stock exchange	5/26/16	511							
	1/5/17	790	1,301	337	2	353	5.25%	6 unequal annual payments beginning 5/31/19 Semi-annual interest 11/30, 5/31	Hermatik

The debenture series 7, 10 and 11 are more than 5% of the Corporation's total liabilities on a separate basis and therefore they are material. All the debentures bear fixed interest.

The Corporation will be permitted, in its sole discretion, to make early repayment (in whole or in part) of the debentures (Series 10) and the debentures (Series 11), at any time, however not before the passage of at least 60 days from the date of registration for trading on the stock exchange of the debentures – this being in accordance with and subject to the terms of the trust indentures covering the debentures.

The debentures (Series 7) are linked to the CPI on the average basis of 2002. The debentures (Series 10) are not linked, and the debentures (Series 11) are linked to the exchange rate of the U.S. dollar based on a base rate of 3.855.

During December 2017, full repayment of the debentures (Series 9) was completed.

The Corporation is in compliance with all the conditions of the debentures and the trust indentures. The Corporation was not required to take any action at all by the debenture trustees. For additional details regarding the debentures of the Corporation and of ICL – see Note 16 to the consolidated financial statements.

On January 4, 2017, Standard & Poor's Maalot gave notice of granting of a rating of ilA to debentures in the aggregate scope of up to NIS 1 billion par value that were issued by Israel Corporation Ltd. (ilA/stable) by means of expansion of the debentures (Series 11).

DEBENTURES (Cont.)

Information regarding debentures issued by Israel Corporation (Cont.)

On November 23, 2017, S&P gave notice of confirmation of a rating of ilA/stable, with a stable rating outlook. (The rating report is attached to the Periodic Report).

Subsequent to the date of the report, on March 13, 2018, S&P gave notice of confirmation of the rating in connection with the debentures (Series 7, 10 and 11), and granting of a rating of ilA for an issuance of debentures in an amount of up to NIS 400 million par value. (The rating report is attached to the Periodic Report).

As at the date of the report, all of the above-mentioned debentures are rated by Maalot with a rating of ilA/stable.

Subsequent to the date of the report, on March 19, 2018, the General Meetings of the holders of the debentures (Series 10 and 11), approved, for each series separately, an amendment to the trust indentures. For additional details – see Note 16C(1)(c) to the annual consolidated financial statements.

Details regarding trust companies

Hermatik Trust (1975) Ltd., 113 Hayarkon St., Tel-Aviv, 63537, Tel. 03–5544553.
Reznik Paz Nevo Trusts Ltd., 14 Yad Harutzim, Tel-Aviv, 6770007, Tel. 03–6389200.

For details regarding:

A. Disclosure regarding the Internal Auditor.

B. Definition of negligible transaction.

C. Disclosure regarding the effectiveness of the internal control over the financial reporting and disclosure.

D. Disclosure regarding the auditing CPAs.

E. Disclosure regarding the Corporation's Board of Directors.

F. Disclosure regarding the minimum number of directors having accounting and finance expertise (Regulation 10(B)(9)(a)).

G. Disclosure regarding the rate of independent directors (Regulation 10(B)(9a)).

H. Disclosure regarding the ethical code, Corporation policies and plans for internal enforcement.

I. The social and community involvement of the Israel Corporation Group.

See Part G attached hereto – Report on the Corporation's Governance and Effectiveness of the Internal Control.

Israel Corporation Ltd.
Report of the Corporation's Board of Directors
For the Year Ended December 31, 2017

ADDITIONAL INFORMATION INCLUDED IN THE AUDITORS' REPORT

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

Without qualifying our opinion as stated above, we direct attention to that stated in Note 20.B.3 a–c, regarding certain legal proceedings and other contingent liabilities against ORL and its subsidiaries which in the estimation of the managements of the defendant companies, based on opinions of their legal advisors, it is not possible to estimate at this stage their impact on the financial statements, if any, and accordingly, no provisions have been included in the financial statements in respect thereof.

Aviad Kaufman	**Avisar Paz**
Chairman of the Board of Directors	**CEO**

March 22, 2018

Israel Corporation Ltd.

Consolidated Financial Statements

As at December 31, 2017

Israel Corporation Ltd.
Consolidated Financial Statements as at December 31, 2017

Contents

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006, Israel
+972 3 684 8000

Auditors' Report to the Shareholders of Israel Corporation Ltd.

We have audited the accompanying consolidated statements of financial position of Israel Corporation Ltd. (hereinafter – "the Corporation"), as at December 31, 2017 and 2016, and the consolidated statements on income, statements of comprehensive income, statements of changes in shareholders' equity and statements of cash flows for each of the three years in the period ended December 31, 2017. These financial statements are the responsibility of the Corporation's Board of Directors and its Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors' Regulations (Manner of Auditor's Performance), 1973. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Corporation's Board of Directors and by its Management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation and its subsidiaries as at December 31, 2017 and 2016, and their results of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, in accordance with International Financial Reporting Standards (IFRS) and the provisions of the Securities Regulations (Annual Financial Statements), 2010.

Without qualifying our opinion as stated above, we direct attention to that stated in Note 20.B.3 a–c, regarding certain legal proceedings and other contingent liabilities against ORL and its subsidiaries which in the estimation of the managements of the defendant companies, based on opinions of their legal advisors, it is not possible to estimate at this stage their impact on the financial statements, if any, and accordingly, no provisions have been included in the financial statements in respect thereof.

We have also audited, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Internal Control Components over Financial Reporting" the Corporation's internal control components over financial reporting as at December 31, 2017, and our report, dated March 22, 2018, included an unqualified opinion with respect to effective maintenance of those components.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 22, 2018

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006, Israel
+972 3 684 8000

Report of the Auditors to the Shareholders of Israel Corporation Ltd. regarding Audit of Internal Control Components over Financial Reporting
In accordance with Section 9B(c) of the Securities Regulations (Periodic and Immediate Reports), 1970

We have audited internal control components over financial reporting of Israel Corporation Ltd. and its subsidiaries (hereinafter – "the Corporation") as at December 31, 2017. These control components were determined as explained in the following paragraph. The Corporation's Board of Directors and Management are responsible for maintenance of effective internal control over financial reporting and for their evaluation of the effectiveness of internal control components over financial reporting attached to the Periodic Report for the above mentioned date. Our responsibility is to express an opinion on internal control components over the Corporation's financial reporting based on our audit.

Internal control components over financial reporting audited by us were determined in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Internal Control over Financial Reporting" and its amendments (hereinafter – "Audit Standard 104"). These components are: (1) controls at the level of the organization, including controls over the preparation and closing process of financial reporting and general controls of the information systems; (2) controls over cash management; (3) controls over management of investments; (4) controls over management of credit and hedging transactions (all of these will be referred to hereinafter as – "the Audited Control Components").

We conducted our audit in accordance with Auditing Standard 104. Pursuant to this Standard we are required to plan and perform the audit with the goal of identifying the Audited Control Components and to obtain a reasonable level of certainty whether these control components were effectively maintained in all material respects. Our audit included gaining an understanding of the internal control over financial reporting, identification of the Audited Control Components, evaluation of the risk that a significant weakness exists in the Audited Control Components, and examination and evaluation of the effectiveness of the planning and operation of those control components based on the assessed risk. Our audit, with respect to those control components, also included performance of other procedures such as those we considered necessary under the circumstances. Our audit referred solely to the Audited Control Components, as opposed to internal control over the overall significant processes in connection with the financial reporting and, therefore, our opinion relates solely to the Audited Control Components. In addition, our audit did not refer to reciprocal impacts between the Audited Control Components and those not audited and, therefore, our opinion does not take into account these possible impacts. We believe our audit provides a reasonable basis for our opinion in the context described above.

Due to built in limitations, internal control over financial reporting, in general, and components thereof, in particular, may not prevent or discover a misstatement. In addition, making of conclusions with respect to the future on the basis of evaluation of any present effectiveness whatsoever is exposed to risk that the controls will become inappropriate due to changes in circumstances or the extent of compliance with the policies or the procedures will change for the worse.

In our opinion, the Corporation effectively maintained, in all material respects, the Audited Control Components as at December 31, 2017.

We have also audited, in accordance with generally accepted auditing standards in Israel, the Corporation's consolidated financial statements as at December 31, 2017 and 2016 and for each of the three years in the period ended on December 31, 2017 and our report, dated March 22, 2018, included an unqualified opinion on those financial statements, as well as a direction of attention regarding contingent liabilities and claims filed against the associated company and its subsidiaries.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 22, 2018

Israel Corporation Ltd.
Consolidated Statements of Financial Position

	Note	As at December 31 2017	As at December 31 2016
		$ millions	
Current assets			
Cash and cash equivalents		**159**	211
Short-term investments and deposits	6	**558**	651
Loan to related company	11	**240**	–
Trade receivables		**932**	966
Inventories	8	**1,226**	1,267
Assets held for sale	5	**169**	–
Other receivables and debit balances, including derivative instruments	7	**260**	251
Total current assets		**3,544**	3,346
Non-current assets			
Investments in equity-accounted investees	9	**578**	714
Financial assets available for sale		**212**	253
Loan to related company	11	**–**	223
Derivative instruments	33	**128**	59
Deferred taxes, net	29	**132**	150
Other non-current assets	12	**309**	289
Property, plant and equipment	13	**4,571**	4,363
Intangible assets	14	**921**	1,026
Total non-current assets		**6,851**	7,077
Total assets		**10,395**	10,423

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

Date of approval of the financial statements: March 22, 2018

The accompanying notes are an integral part of the consolidated financial statements.

Israel Corporation Ltd.
Consolidated Statements of Financial Position

	Note	As at December 31 2017	As at December 31 2016
		$ millions	
Current liabilities			
Credit from banks and others	16	**901**	946
Trade payables		**790**	644
Provisions	18	**78**	83
Liabilities held for sale	5	**43**	–
Other current liabilities, including derivative instruments	17	**670**	760
Total current liabilities		**2,482**	2,433
Non-current liabilities			
Debentures and loans from banks and others	16	**4,192**	4,633
Derivative instruments and other non-current liabilities	33	**7**	14
Provisions	18	**193**	185
Deferred taxes, net	29	**242**	319
Provisions for employee benefits	19	**642**	578
Total non-current liabilities		**5,276**	5,729
Total liabilities		**7,758**	8,162
Equity	22		
Share capital and premium		**326**	322
Capital reserves		**(117)**	(168)
Capital reserve in respect of transactions with controlling shareholder		**190**	190
Retained earnings		**614**	460
Total equity attributable to the Corporation's shareholders		**1,013**	804
Non-controlling interests		**1,624**	1,457
Total equity		**2,637**	2,261
Total liabilities and equity		**10,395**	10,423

The accompanying notes are an integral part of the consolidated financial statements.

Israel Corporation Ltd.
Consolidated Statements of Income

		For the Year Ended December 31		
		2017	2016	2015
	Note	$ millions		
Revenues		**5,418**	5,363	5,405
Cost of sales	23	**3,753**	3,705	3,613
Gross profit		**1,665**	1,658	1,792
Research and development expenses	24	**55**	73	74
Selling, transport and marketing expenses	25	**746**	722	653
Administrative and general expenses	26	**267**	329	365
Other expenses	27	**100**	623	211
Other income	27	**(109)**	(71)	(332)
Operating income (loss)		**606**	(18)	821
Financing expenses	28	**382**	271	277
Financing income	28	**(170)**	(41)	(73)
Financing expenses, net		**212**	230	204
Share in income of equity-accounted investees	9	**74**	70	86
Income (loss) before taxes on income		**468**	(178)	703
Taxes on income	29	**162**	50	7
Income (loss) for the year		**306**	(228)	696
Attributable to:				
The Corporation's shareholders		**135**	(116)	440
Non-controlling interests		**171**	(112)	256
Income (loss) for the year		**306**	(228)	696
Earnings (loss) per share attributable to the Corporation's shareholders:	30			
Basic and diluted per share (in dollars)		**17.81**	(15.34)	57.51

The accompanying notes are an integral part of the consolidated financial statements.

Israel Corporation Ltd.
Consolidated Statements of Comprehensive Income

	For the Year Ended December 31		
	2017	2016	2015
	$ millions		
Income (loss) for the year	**306**	(228)	696
Items of other comprehensive income (loss) that after their initial recognition in the statement of income were transferred or will be transferred to the statement of income			
Foreign currency translation differences in respect of foreign activities	**151**	(90)	(207)
Net change in fair value of cash flow hedges transferred to the statement of income	**(16)**	(1)	2
Effective portion of the change in fair value of cash flow hedges	**17**	–	(5)
Group's share in other comprehensive income of equity-accounted investees	**5**	1	2
Net change in fair value of financial assets available for sale	**(57)**	17	–
Income taxes in respect of other components of other comprehensive income (loss)	**5**	(2)	–
Total	**105**	(75)	(208)
Items of other comprehensive income (loss) that will not be transferred to the statement of income			
Actuarial gains (losses), net, from defined benefit plans	**(17)**	(48)	63
Income taxes in respect of other components of other comprehensive income (loss)	**3**	10	(15)
Total	**(14)**	(38)	48
Total other comprehensive loss for the year, net of tax	**91**	(113)	(160)
Total comprehensive income (loss) for the year	**397**	(341)	536
Attributable to:			
The Corporation's shareholders	**179**	(165)	366
Non-controlling interests	**218**	(176)	170
Total comprehensive income (loss) for the year	**397**	(341)	536

The accompanying notes are an integral part of the consolidated financial statements.

Israel Corporation Ltd.
Consolidated Statements of Changes in Shareholders' 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)	–	–	–	–	–
Dividends 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 are an integral part of the consolidated financial statements.

Israel Corporation Ltd.
Consolidated Statements of Changes in Shareholders' 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, 2016	318	(196)	61	190	588	961	1,761	2,722
Share-based payments in a subsidiary	–	–	–	–	–	–	15	15
Expiration of options granted to employees of a subsidiary	–	–	–	–	12	12	(12)	–
Share-based payments in the Corporation	–	–	*–	–	–	*–	–	*–
Expiration of options granted to employees of the Corporation	4	–	(4)	–	–	–	–	–
Dividends to holders of non-controlling interests in a subsidiary	–	–	–	–	–	–	(116)	(116)
Non-controlling interests in respect of business combinations in prior periods	–	–	–	–	–	–	(12)	(12)
Sale of shares of a subsidiary while retaining control	–	1	–	–	2	3	5	8
Change in equity of equity-accounted investee companies	–	–	–	–	(7)	(7)	(8)	(15)
Loss for the year	–	–	–	–	(116)	(116)	(112)	(228)
Other comprehensive income (loss) for the year, net of tax	–	(36)	6	–	(19)	(49)	(64)	(113)
Balance at December 31, 2016	322	(231)	63	190	460	804	1,457	2,261

* Less than $1 million.

The accompanying notes are an integral part of the consolidated financial statements.

Israel Corporation Ltd.
Consolidated Statements of Changes in Shareholders' 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, 2015	308	(70)	45	190	1,360	1,833	1,802	3,635
Share-based payments in a subsidiary	–	–	–	–	–	–	15	15
Expiration of options granted to employees of the Corporation	10	–	(10)	–	–	–	–	–
Share-based payments in the Corporation	–	–	2	–	–	2	–	2
Dividends to holders of non-controlling interests in a subsidiary	–	–	–	–	–	–	(178)	(178)
Dividends to Corporation shareholders	–	–	–	–	(1,250)	(1,250)	–	(1,250)
Non-controlling interests in respect of business combination	–	–	–	–	7	7	151	158
Issuance of shares of a subsidiary to holders of non-controlling interests	–	–	–	–	3	3	13	16
Loss of control due to split up of holdings	–	(30)	26	–	4	–	(212)	(212)
Income for the year	–	–	–	–	440	440	256	696
Other comprehensive (loss) for the year, net of tax	–	(96)	(2)	–	24	(74)	(86)	(160)
Balance at December 31, 2015	318	(196)	61	190	588	961	1,761	2,722

The accompanying notes are an integral part of the consolidated financial statements.

Israel Corporation Ltd.
Consolidated Statements of Cash Flows

	For the Year Ended December 31		
	2017	**2016**	**2015**
	$ millions		
Cash flows from operating activities			
Income (loss) for the year	**306**	(228)	696
Adjustments:			
Depreciation and amortization	**397**	403	367
Impairment loss	**28**	6	75
Financing expenses, net	**224**	174	140
Share in income of equity-accounted investees	**(74)**	(70)	(86)
Other capital losses (gains), net	**(51)**	433	(210)
Share-based payment transactions	**16**	15	17
Loss (gain) from re-measurement to fair value of collar options	**7**	5	(82)
Taxes on income	**162**	50	7
	1,015	788	924
Change in inventories	**57**	70	25
Change in trade and other receivables	**21**	150	(82)
Change in trade and other payables	**(57)**	50	15
Change in provisions and employee benefits	**(4)**	96	(90)
	1,032	1,154	792
Income taxes received (paid), net	**(132)**	130	(33)
Dividend received	**35**	12	19
Net cash provided by operating activities	**935**	1,296	778

The accompanying notes are an integral part of the consolidated financial statements.

Israel Corporation Ltd.
Consolidated Statements of Cash Flows

	For the Year Ended December 31		
	2017	**2016**	**2015**
		$ millions	
Cash flows from investing activities			
Investment in available for sale securities	**–**	(250)	–
Short-term deposits and investments, net	**205**	(387)	514
Investments in long-term deposits	**(65)**	–	–
Business combinations less cash acquired	**–**	–	(351)
Proceeds from sale of subsidiaries	**6**	17	364
Net proceeds from sale of shares of equity-accounted investee company	**224**	–	–
Proceeds from sale of property, plant and equipment	**12**	–	–
Acquisition of property, plant and equipment and intangible assets	**(457)**	(632)	(619)
Provision of long-term loan to related company	**–**	(90)	(110)
Interest received	**6**	5	5
Other	**–**	1	6
Proceeds from (payments for) transactions in derivatives not used for hedging, net	**37**	(8)	(135)
Net cash used in investing activities	**(32)**	(1,344)	(326)
Cash flows from financing activities			
Dividend paid to holders of non-controlling interests	**(124)**	(87)	(178)
Dividend paid to the owners of the Corporation	**–**	–	(300)
Cash of previously consolidated subsidiaries that was distributed as a dividend in kind	**–**	–	(645)
Receipt (repayment) of long-term loans and debentures, net*	**(582)**	2	149
Short-term credit from banks and others, net	**(28)**	14	8
Receipts (payments) from transactions in derivatives used for hedging, net	**3**	(1)	(1)
Interest paid	**(218)**	(206)	(188)
Net cash used in financing activities	**(949)**	(278)	(1,155)
Decrease in cash and cash equivalents	**(46)**	(326)	(703)
Cash and cash equivalents at beginning of the year	**211**	537	1,255
Cash and cash equivalents included as part of assets held for sale	**(5)**	–	–
Effect of exchange rate fluctuations on balances of cash and cash equivalents	**(1)**	–	(15)
Cash and cash equivalents at end of the year	**159**	211	537

* As at December 31, 2016, payments of principal and interest in respect of debentures, in the amount of about $60 million, were postponed, based on the provisions of the trust indenture, to January 1, 2017, since the contractual repayment date did not fall on a business day.

The accompanying notes are an integral part of the consolidated financial statements.

Note 1 – Financial Reporting Principles and Accounting Policies

A. 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 and joint ventures.

On January 7, 2015, the Corporation completed the split-up transaction (hereinafter – "the Transaction" or "the Transaction for Change in the Structure of the Corporation's Holdings"), further to the approval thereof on December 31, 2014 by the General Meeting of the Corporation's Shareholders.

Commencing from the completion date of the Transaction, 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 Corporation's and related companies.

C. Definitions

In these financial statements –

1. The Corporation – Israel Corporation Ltd.

2. The Group – Israel Corporation Ltd. and its subsidiaries.

3. Subsidiaries – companies whose financial statements are fully consolidated with those of the Corporation, directly or indirectly.

4. Associated companies – companies or joint ventures that are not subsidiaries, over which the Company has significant influence with respect to their monetary and operating policies and the Company's investment therein is included based on the equity method of accounting. Significant influence is considered to exist when the rate of holdings is 20% or more, except where there are circumstances that contradict this assumption.

5. Related party – within the meaning thereof in International Accounting Standard 24 (2009) "Related Parties".

6. Interested party – within the meaning thereof in Paragraph (1) of the definition of an "interested party" in a corporation in Section 1 of the Securities Law, 1968.

7. ICL – Israel Chemicals Ltd. And its Subsidiaries.

8. ORL – Oil Refineries Ltd. And its Subsidiaries.

Note 2 – Basis of Preparation of the Financial Statements

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

The consolidated financial statements were prepared by the Group in accordance with International Financial Reporting Standards (IFRS).

These financial statements were also prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements) 2010.

The consolidated financial statements were approved for publication by the Corporation's Board of Directors on March 22, 2018.

B. Functional currency and presentation currency

The details presented in the consolidated financial statements of the Corporation and of each of its subsidiaries are measured in accordance with the currency that represents the main economic environment in which each separate Group company operates (hereinafter – "the Functional Currency"). The consolidated financial statements are presented in U.S. dollars (hereinafter – "the Dollar"), which constitutes the functional currency of the Corporation and of most of its subsidiaries.

C. Basis of measurement

The consolidated financial statements were prepared on the basis of historical cost, with the exception of the following assets and liabilities:

- Derivative and other financial instruments measured at fair value through the statement of income.
- Financial instruments classified as "available for sale".
- Non-current assets held for sale and realization groups held for sale.
- Deferred tax assets and liabilities.
- Provisions.
- Assets and liabilities in respect of employee benefits.
- Investments in associated companies and joint ventures.

For additional information regarding measurement of these assets and liabilities – see Note 3 "Significant Accounting Policies".

D. Operating cycle

The Group's regular operating cycle is one year. As a result, the current assets and current liabilities include items intended and expected to be realized within one year.

E. Use of estimates and judgment

In preparation of the financial statements in accordance with IFRS, Group 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.

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

E. Use of estimates and judgment (cont.)

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

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

Set forth below is information regarding critical estimates made while implementing the accounting policies and that have a significant effect on the financial statements:

Estimate	Principal assumptions	Possible effects	Reference
Recognition of deferred tax asset	The tax rates expected at the time of the reversal of the temporary differences relating to the benefitted enterprises in Israel are based on a forecast of the future income. The reasonableness relating to the ability to produce income in order to utilize the tax benefits in the future.	Recognition or cancellation of a deferred tax asset to profit and loss	See Note 29
Uncertain tax positions	The extent of the certainty that the Group's tax positions will be accepted (uncertain tax positions) and the risk of it incurring any additional tax and interest expenses. This is based on an analysis of a number of matters including interpretations of tax laws and the Group's past experience	Recognition of additional income tax expenses	See Note 29
Post-employment employee benefits	Actuarial assumptions such as the discount rate, future salary increases and the future pension increase	An increase or decrease in the post-employment defined benefit obligation	See Note 19 "Employee Benefits"

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

E. Use of estimates and judgment (Cont.)

Estimate	Principal assumptions	Possible effects	Reference
Assessment of probability of contingent liabilities and obligations under environmental protection laws, including cost of removal of waste and restoration	Whether it is more likely than not that an outflow of economic resources will be required in respect of potential obligations under the environmental protection laws and legal claims pending against ICL and its investees The obligation for the cost of removal of waste and site restoration is based on reliable estimates of future removal costs	Reversal, creation or cancellation of a provision for a claim and/or obligations under the environmental protection laws, including the cost of removing waste / site restoration	See Note 20 “Contingent Liabilities”
Recoverable value of cash-generating units, among others that include goodwill	The discount rate and the budgeted rate of growth	Change in the impairment loss	See Note 15 “Examination of Impairment in Value”
Estimate of the fair value of assets and liabilities acquired as part of business combinations	Forecasts of the expected cash flows from the business acquired and selection of models for calculation of the fair value the items acquired and of their depreciable period.	Impact on the balance of the assets and liabilities acquired and on the depreciation and amortization in the statement of income	
Estimate of the net realizable of inventory	The future selling price and expected replacement cost which constitutes the best estimate of the realization value	Impairment in value of the inventory and the results of the activities, respectively.	
Fair value measurement of non-trading derivatives	Unobservable inputs used in the valuation model based on the discount rate and the standard deviation	Profit or loss from a change in the fair value of derivative financial instruments	For information on a sensitivity analysis of level 3 financial instruments carried at fair value see Note 33 “Financial Instruments”

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

E. Use of estimates and judgment (Cont.)

Estimate	Principal assumptions	Possible effects	Reference
Quarry reserves and resources	Estimates of the quantity and quality of quarry reserves and resources based on engineering, economic and geological data gathered and from analyses of ICL's engineers and geologists	Impact on the useful lives of the assets related to the activities	

Note 3 – Significant Accounting Policies

The accounting policies in accordance with IFRS have been applied consistently by the Group companies in all the periods included in these consolidated statements by the Group entities.

A. Basis for consolidation

1. <u>Business combinations</u>

The Group applies the "acquisition method" to all business combinations. The acquisition date is the date on which the Group obtains control over the acquired entity. Control exists where the Group is exposed to, or has rights in, the variable yields from its involvement in the acquired company and it has the ability to impact these results by means of its impact on the acquired company. In assessing control, account is taken of significant rights held by the Group and by others.

The Group recognizes goodwill at acquisition according to the fair value of the consideration transferred including any amounts recognized in respect of non-controlling interests in the acquired entity as well as the fair value as at the acquisition date of any pre-existing equity right of the acquirer in the acquired entity, less the net amount attributed in the acquisition to the identifiable assets acquired and the liabilities assumed.

The purchaser recognizes on the acquisition date a contingent liability undertaken in a business combination if there is a current obligation stemming from past events and its value can be reliably measured. If the Group pays a bargain price for the acquisition (including, as such, negative goodwill), it recognizes the resulting gain in the statement of income on the acquisition date. In addition, goodwill is not update for use utilization of carryforward tax losses that existed on the date of the business combination.

The consideration transferred includes the fair value of the assets transferred to the previous owners of the acquired entity, the liabilities incurred by the Group to the previous owners of the acquired entity and equity instruments that were issued by the Group. In a business combination executed in stages, **the difference between the fair value on the acquisition date of the Group's pre-existing equity rights in the acquired entity and the carrying amount on that date is recognized in the statement of income**.

Costs associated with the acquisition that were incurred by the acquirer in the business combination such as: brokers' commissions, advisory, legal, valuation and other professional or consulting fees, other than those associated with an issuance of debt or equity instruments relating to the business combination, are expensed in the period the services are received.

Note 3 – Significant Accounting Policies (Cont.)

A. Basis for consolidation (Cont.)

2. <u>Subsidiaries</u>

Subsidiaries are entities that are controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date control was acquired until the date control ceases to exist.

The accounting policies of subsidiaries were changed as necessary so that they will correspond to the accounting policies adopted by the Corporation.

4. <u>Structured entities</u>

The Group operates with structured entities for purposes of securitization of financial assets. The Group has no direct or indirect holdings in the shares of the said entities. A structured entity is included in the financial statements where there is control over the said entity.

4. <u>Non-controlling interests</u>

Non-controlling interests comprise the equity of a subsidiary that cannot be attributed, directly or indirectly, to the parent company and they include additional components such as: the equity component of convertible debentures of subsidiaries, share-based payments that will be settled with equity instruments of subsidiaries and options for shares of subsidiaries.

Measurement of non-controlling interests on the date of the business combination
Non-controlling interests, which are instruments giving rise to a present ownership interest and entitle the holder to a share of the net assets in the event of liquidation (for example: ordinary shares), are measured at the date of the business combination at either fair value, or at their proportionate interest in the identifiable assets and liabilities of the acquired entity, on the basis of each separate transaction. This accounting policy choice does not apply to other instruments that meet the definition of non-controlling interests (for example: options to ordinary shares). Such instruments will be measured at fair value or in accordance with other relevant IFRSs.

Allocation of Profit or loss and the comprehensive income to the shareholders
Profit or loss and any part of other comprehensive income are allocated to the owners of the Corporation and the non-controlling interests. Total comprehensive income is allocated to the owners of the Corporation and the non-controlling interests even if the result is a negative balance of non-controlling interests.

Transactions with holders of non-controlling interests while maintaining control
Transactions with non-controlling interests while retaining control are accounted for as equity transactions. **Any difference between the consideration paid or received and the change in non-controlling interests is included in the owners' share of the Corporation in equity directly in retained earnings.**

Note 3 – Significant Accounting Policies (Cont.)

A. Basis for consolidation (Cont.)

4. Non-controlling interests (Cont.)

The amount of the adjustment to the non-controlling interests is calculated as follows:

For a rise in the holding rate – according to the proportionate share acquired from the balance of the non-controlling interests in the consolidated financial statements immediately preceding the transaction. For a decrease in the holding rate – according to the proportionate share realized by the owners of the subsidiary in the net assets of the subsidiary, including goodwill. In addition, when the holding rate in the subsidiary changes, while maintaining control, the Corporation reallocates the accumulated amounts that were recognized in other comprehensive income to the owners of the Corporation and the holders of non-controlling interests.

Cash flows deriving from transactions with holders of non-controlling interests while maintaining control are classified under "financing activities" in the statement of cash flows.

5. Loss of control

Upon the loss of control, the Group eliminates the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. The difference between the sum of the proceeds and fair value of the retained interest, and the derecognized balances is recognized in profit or loss under other income or other expenses. Subsequently, the retained interest is accounted for as an equity-accounted investee or as a financial asset in accordance with the provisions of IAS 39, depending on the level of influence retained by the Group in the relevant company.

The amounts recognized in capital reserves through other comprehensive income with respect to the same subsidiary are reclassified to profit or loss or to retained earnings in the same manner that would have been applicable if the subsidiary had itself realized the same assets or liabilities.

6. Investment in associated companies and joint ventures accounted for using the equity method of accounting

Associated companies are those entities in which the Group has significant influence, but not control, over the financial and operating policies. There is a presumption whereby holdings at a rate of 20% to 50% in the investee provide significant influence. When examining the existence of significant influence, account is taken of potential voting rights that may be exercised or converted into shares of the investee immediately.

Note 3 – Significant Accounting Policies (Cont.)

A. Basis for consolidation (Cont.)

6. Investment in associated companies and joint ventures accounted for using the equity method of accounting (Cont.)

Associates and joint ventures are accounted for using the equity method (equity accounted investees) and are recognized initially at cost. The cost of the investment includes transaction costs. Transaction costs that are directly attributable to an expected acquisition of an associate or joint venture are recognized as an asset as part of the item of deferred expenses in the statement of financial position. These costs are added to the cost of the investment on the acquisition date. The consolidated financial statements include the Group's share of the income and expenses in profit or loss and of other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

7. Change in rate of holdings in associated companies while maintaining significant influence

When the Group increases its interest in an associated company accounted for by the equity method while retaining significant influence, it implements the acquisition method only with respect to the additional interest obtained whereas the previous interest remains unchanged.

When there is a decrease in the interest in an associated company accounted for by the equity method while retaining significant influence, the Group eliminates a proportionate part of its investment and **recognizes a gain or loss from the sale in the statement of income under "other income" or "other expenses" category**.

Furthermore, on the same date, a proportionate part of the amounts recognized in capital reserves through other comprehensive income with respect to the same associated company is reclassified to profit or loss or to retained earnings in the same manner that would have been applicable if the associated company had itself realized the same assets or liabilities.

8. Transactions eliminated in the consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. **Unrealized gains arising from transactions with associated companies and jointly controlled entities are eliminated against the investment to the extent of the Group's interest in these investments.** Unrealized losses are eliminated in the same way as unrealized gains, so long as there is no evidence of impairment.

9. Loss of significant influence or joint control

The Group discontinues applying the equity method from the date it loses significant influence in an associate or joint control in a joint venture and it accounts for the retained investment as a financial asset or subsidiary, as relevant.

Note 3 – Significant Accounting Policies (Cont.)

A. Basis for consolidation (Cont.)

9. Loss of significant influence or joint control (Cont.)

On the date of losing significant influence or joint control, the Group measures at fair value any retained interest it has in the former associate or joint venture. **The Company recognizes in profit or loss under other income or expenses any difference between the sum of the fair value of the retained interest and any proceeds received from the partial disposal of the investment in the associate or joint venture, and the carrying amount of the investment on that date.**

The amounts recognized in equity through other comprehensive income with respect to the same associate or joint venture are reclassified to profit or loss or to retained earnings in the same manner that would have been applicable if the associate or joint venture had itself realized the same assets or liabilities.

B. Foreign currency

1. Transactions in foreign currency

Transactions in foreign currency are translated into the Group's functional currency based on the exchange rate in effect on the dates of the transactions. Monetary assets and liabilities denominated in foreign currency on the report date are translated into the Group's functional currency based on the exchange rate in effect on that date. Exchange rate differences in respect of the monetary categories is the difference between the net book value in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the year and the net book value in foreign currency translated based on the rate of exchange at the end of the year. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency based on the exchange rate in effect on the date the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Exchange rate differences deriving from re-translation are recognized in the statement of income, except for the following differences, which are recognized in other comprehensive income, which stem from translation of:

– Financial equity instruments classified as available for sale (except for impairment in value, in which case the translation differences recognized in other comprehensive income are reclassified to the statement of income).

– Derivatives used in hedges of cash flows, with respect to the effective part of the hedge.

Note 3 – Significant Accounting Policies (Cont.)

B. Foreign currency (Cont.)

2. Foreign activities

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

Foreign currency differences are recognized in other comprehensive income and such differences are presented in equity in the foreign currency translation reserve (hereinafter – "the Translation Reserve").

When the foreign operation is a subsidiary of the Corporation that is not wholly-owned, then the proportionate share of the foreign operation translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the Translation Reserve related to that foreign operation is reclassified to profit or loss as a part of the gain or loss on disposal.

In addition, at the time of changes in the Corporation's rate of holdings in a subsidiary that includes foreign activities, while maintaining control over the subsidiary, a proportionate amount of the accumulated exchange rate differences recognized in the other comprehensive income is reattributed to non-controlling interests.

Where the Group realizes part of an investment that is an associated company or a joint venture including foreign activities while retaining significant influence or joint control the proportionate part of the accumulated exchange rate differences is reclassified to the statement of income.

In general, exchange rate differences in respect of loans received from or granted to foreign activities, including foreign activities that are subsidiaries, are recognized in the consolidated statement of income. Where settlement of loans received from or granted to foreign activities is not planned and is not expected to take place in the foreseeable future, gains and losses from exchange rate differences deriving from these monetary items are included as part of the net investment in the foreign activities and are recognized in other comprehensive income and are presented in equity as part of the Translation Reserve.

C. Financial instruments

1. Non-derivative financial assets

Initial recognition of financial assets

The Group initially recognizes loans, receivables and deposits at the time they are created. The rest of the financial assets that are acquired in the regular way, including assets designated at fair value through the statement of income, are initially recognized at the time of entering into the transaction (the trade date) when the Group becomes a party to the instrument's contractual conditions, that is, when the Group undertakes to buy or sell the asset. Non-derivative financial instruments include investments in shares and debt instruments, trade and other receivables, including receivables as part of concession arrangements, and cash and cash equivalents.

Note 3 – Significant Accounting Policies (Cont.)

C. Financial instruments

1. Non-derivative financial assets

Elimination of financial assets

Financial assets are eliminated when the contractual rights of the Group to the cash flows deriving from the financial assets expire, or when the Group transfers the rights to receive the cash flows deriving from the financial asset in a transaction wherein all the risks and rewards deriving from ownership of the asset are effectively transferred.

Every right in financial assets transferred that is created or reserved by the Group is recognized separately as an asset or liability.

Sales of financial assets made in the usual manner ("regular way sale") are recognized on the transaction date ("trade date"), that is, on the date the Group undertook to buy or sell the asset.

Regarding offset of financial assets and financial liabilities – see Section (2) below.

Classification of assets and liabilities into groups and accounting treatment of each group

The Group classifies financial assets in categories as follows:

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon the initial recognition. These financial assets are measured at fair value and the changes therein are recorded in the statement of income. Financial assets designated at fair value through the profit or loss include equity investments that otherwise would have been classified as available-for-sale.

Loans and receivables

Loans and other receivables that are non-derivative financial assets bearing payments that are fixed or that can be fixed and that are not traded on an active market. These assets are initially recognized at market value plus attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise cash and cash equivalents, trade and other receivables, investments in non-marketable debentures and service concession receivables.

Cash and cash equivalents

Cash includes cash balances or deposits that are available for immediate withdrawal. Cash equivalents include highly liquid short-term investments where the period of time from the original date of deposit up to the redemption is up to 3 months that can be easily converted into known amounts of cash and that are exposed to insignificant risk regarding changes in value.

Note 3 – Significant Accounting Policies (Cont.)

C. Financial instruments (Cont.)

1. Non-derivative financial assets (Cont.)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or that are not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, foreign currency differences and the accrual of effective interest on available-for-sale debt instruments, are recognized directly in other comprehensive income and presented within equity in a reserve for financial assets classified as available-for-sale. A dividend received in respect of available-for-sale financial assets is recognized in profit or loss on the date the entity's right to receive the dividend is established. When an investment is derecognized, the cumulative gain or loss in the reserve for available-for-sale financial assets is transferred to the statement of income.

2. Non-derivative financial liabilities

The Group has non-derivative financial liabilities as follows: revolving credit from banks, loans and credit from banks and others, marketable and non-marketable debentures, liabilities for financing leases and trade and other payables.

Initial recognition of financial liabilities

The Group initially recognizes debt instrument issued on the date they are created. The rest of the financial liabilities are initially recognized on the trade date when the Group becomes a party to the instrument's contractual conditions.

Financial liabilities (other than financial liabilities at fair value through the statement of income) are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities are designated at fair value through the statement of income if the Group manages such liabilities and their performance is assessed based on their fair value in accordance with the Group's documented risk management strategy, providing that the designation is intended to prevent an accounting mismatch, or the liability is a combined instrument including an embedded derivative.

Elimination of financial liabilities

Financial liabilities are eliminated when the Group's obligation, as detailed in the agreement, expires or is settled or cancelled.

Note 3 – Significant Accounting Policies (Cont.)

C. Financial instruments (Cont.)

2. Non-derivative financial liabilities (Cont.)

Change in terms of debt instruments

Exchange of debt instruments, having materially different terms, between an existing borrower and lender is treated as settlement of the original financial liability and recognition of a new financial liability at fair value. In addition, a significant change in the terms of an existing financial liability or a part thereof is treated as settlement of the original financial liability and recognition of a new financial liability.

In such cases the entire difference between the amortized cost of the original financial liability and the fair value of the new financial liability is recognized in the statement of income as financing income or expense.

The terms are materially different if the present value of the discounted cash flows under the new terms, including any commissions paid, less commissions received and capitalized using the original effective interest rate, is at least ten percent different than the discounted present value of the remaining cash flows of the original financial liability.

In addition to the said quantitative test, the Group examines, among other things, whether there have been changes in various economic parameters embedded in the exchanged debt instruments. Therefore as a rule, exchanges of CPI-linked debt instruments with unlinked instruments are considered exchanges with substantially different terms even if they do not meet the aforementioned quantitative criterion.

Upon the swap of debt instruments with equity instruments, equity instruments issued at the extinguishment and de-recognition of all or part of a liability, are a part of "consideration paid" for purposes of calculating the gain or loss from de-recognition of the financial liability. The equity instruments are initially recognized at fair value, unless fair value cannot be reliably measured – in which case the issued instruments are measured at the fair value of the derecognized liability. Any difference between the amortized cost of the financial liability and the initial measurement amount of the equity instruments is recognized in profit or loss under financing income or expenses.

Offset of financial instruments

A financial asset and a financial liability are offset and the amounts are presented on a net basis in the statement of financial position where the Group has a current legal right to offset the amounts recognized and the intention is to settle the asset and liability on a net basis or to realize the asset and settle the liability concurrently.

3. Derivative financial instruments, including hedge accounting

The Group companies make use of derivative financial instruments for purposes of reducing the exposure to commodity price risks, marine shipping prices, foreign currency risks, inflation risks and interest risks.

Note 3 – Significant Accounting Policies (Cont.)

C. Financial instruments (Cont.)

3. Derivative financial instruments, including hedge accounting (Cont.)

Hedge accounting

On the start date of the accounting hedge, the Group formally documents the hedge ratio between the hedging instrument and the hedged instrument, including the purpose of the Group's risk and strategic management for executing the hedge and the manner in which the Group will evaluate the effectiveness of the hedge ratio.

The Group evaluates at the time of creating the hedge and in subsequent periods whether the hedge is projected to be highly effective by achieving offsetting changes in fair value of cash flows that can be attributed to the hedged risk during the period with respect to which the hedge is designated, as well as whether the actual results of the hedge are within a range of 80-125 percent.

Regarding a cash flow hedge, a projected transaction constituting a hedged item must be expected to be at a high level and to cause exposure to changes in the cash flows that are ultimately expected to impact the profit or loss.

Measurement of derivative financial instruments

Derivatives are initially recognized according to fair value and the allocable transaction costs are charged to the statement of income as incurred. After the initial recognition, the derivatives are measured at fair value, where the changes in the fair value are treated as described below:

Fair value hedge

Changes in the fair value of a derivative financial instrument used to hedge fair value are recorded on the statement of income. In addition, changes in the fair value of the hedged item, in connection with the hedged risks, are also recorded on the statement of income in a parallel manner upon adjustment of the book value of the hedged item.

Cash flow hedge

Changes in the fair value of derivatives used to hedge cash flows, in respect of the effective part of the hedge, are recorded through other comprehensive income directly to a hedge reserve. With respect to the non-effective part, the changes in fair value are recorded on the statement of income.

The amount accumulative in the hedge reserve is reclassified to the statement of income in the period in which the cash flows impact the statement of income and are presented in the same category in the statement of income in which the hedged item is presented.

Note 3 – Significant Accounting Policies (Cont.)

C. Financial instruments (Cont.)

3. Derivative financial instruments, including hedge accounting (Cont.)

Cash flow hedge (Cont.)

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued. The cumulative gain or loss previously recognized in a hedge reserve through other comprehensive income remains in the reserve until the forecasted transaction occurs or is no longer expected to occur. Where the forecasted transaction is no longer expected to occur, the cumulative gain or loss in respect of the hedging instrument accumulated in the capital reserve is reclassified to the statement of income. Where the hedged item is a non-financial asset, the amount recorded in the capital reserve is transferred to the book value of the asset at the time of recognition thereof. In other cases, the amount recorded in the hedge reserve is transferred to the statement of income in the period wherein the hedged item impacts profit and loss.

Economic hedge

Hedge accounting is not applied with respect to derivative financial instruments used to economically hedge financial assets and liabilities denominated in foreign currency and input prices. The changes in the fair value of these items are recorded in the statement of income as financing income or expenses.

4. Index-linked assets and liabilities not measured at fair value

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is re-measured every period in accordance with the actual increase or decrease in the CPI.

5. Financial guarantees

On the date of the initial recognition, a financial guarantee is recognized at its fair value. In succeeding periods a financial guarantee is measured based on the higher of the amount recognized in accordance with the provisions of IAS 37 and the liability initially recognized after it was reduced in accordance with IAS 18. Every update of the liability in accordance with that stated is recorded in the statement of income.

6. Share capital

Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and options for shares are recognized as a deduction from equity, net of the tax effect.

Incremental costs directly attributable to an expected issuance of an instrument that will be classified as an equity instrument are recognized as an asset in deferred expenses in the statement of financial position. The costs are deducted from the equity upon the initial recognition of the equity instruments, or are amortized as financing expenses in the statement of income when the issuance is no longer expected to take place.

Note 3 – Significant Accounting Policies (Cont.)

D. Property, plant and equipment

1. Recognition and measurement

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

The cost includes expenses that can be directly attributed to the purchase of the asset. The cost of assets that were constructed independently includes the cost of the materials and direct salary costs, as well as any additional cost that are directly attributable to bringing the asset to the required position and condition so that it will be able to function as management intended, as well as costs to dismantle and remove the items and to restore its location (where there is an obligation to dismantle and remove or to restore the site), as well as additional capitalized credit and financing costs. The cost of purchased software that is an inseparable part of operating the related equipment is recognized as part of the cost of said equipment. In addition, deposits on account of acquisition of property, plant and equipment are recognized as part of the property, plant and equipment.

Spare parts for facilities are valued at cost determined based on the “moving average” method, after recording a write-down in respect of obsolescence. The portion designated for current consumption is presented in the inventory category in the “current assets” section. Replacement parts that meet the definition of property, plant and equipment in accordance with IAS 16 are classified as property, plant and equipment.

When major parts of a fixed asset item (including costs of major periodic inspections) have different useful lives, they are accounted for as separate items (major components) of fixed assets.

Changes in the obligation to dismantle and remove the items and to restore the site on which they are located, other than changes deriving from the passing of time, are added to or deducted from the cost of the asset in the period in which they occur. The amount deducted from the cost of the asset shall not exceed the balance of the carrying amount, and any balance is recognized immediately in profit or loss. Gain or loss from elimination of an item of property, plant and equipment is determined by comparing the net proceeds from elimination of the asset to its book value, and are recognized on a net basis in “other income” or “other expenses”, as applicable, in the statement of income.

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

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

Note 3 – Significant Accounting Policies (Cont.)

D. Property, plant and equipment (Cont.)

3. Depreciation

Depreciation is a systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, or other amount substituted for cost, less its residual value.

Depreciation with respect to an item of property, plant and equipment begins when it is available for use, that is, when it reaches the place and condition necessary in order that it will be able to function as Management intended. Depreciation is charged to the statement of income according to the straight-line method over the estimated useful life of each part of the property, plant and equipment items, since this method best reflects the expected utilization of the future benefits embedded in the asset. Owned land is not depreciated.

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

		In Years
Land development, roads and structures		15–30
Facilities, machinery and equipment	(mainly 25)	8–25
Dams and ponds	(mainly 40)	20–40
Heavy mechanical equipment, train cars and tanks		5–15
Office furniture and equipment, motor vehicles, computer equipment and other		3–10

The estimates regarding the depreciation method, useful life and scrap value are evaluated, at a minimum, at the end of every reporting year and are updated where necessary. Once every five years, ICL makes an active examination of the useful lives of its main items of property, plant and equipment and, where necessary, it updates the useful lives and/or the residual values. Based on past experience, the Group is able to preserve the useful lives of part of its property, plant and equipment, this being due to current maintenance investments and expenses in these assets.

E. Intangible Assets

1. Goodwill

Goodwill created as a result of acquisition of subsidiaries is included in the intangible assets category. In subsequent periods, goodwill is measured at cost less accrued impairment losses.

2. Resource exploration costs and valuation thereof

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

The cost includes, among other things, costs of performing research studies, drilling costs and activities in connection with assessing the technical feasibility with respect to the commercial viability of extracting the resources.

Note 3 – Significant Accounting Policies (Cont.)

E. Intangible Assets (Cont.)

3. Research and development

Expenditures on research activities are recognized in profit or loss when incurred. Development expenditures are capitalized as an intangible asset only if: the development costs can be measured reliably; the product or process is technically and commercially feasible; future economic benefits are probable, and the Group has the intention and sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred. In subsequent periods, capitalized development expenditures are measured at cost less accumulated amortization and accrued impairment losses.

4. Other intangible assets

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

Intangible assets having an indefinite useful life are measured at cost less accrued losses from declines in value.

5. Subsequent costs

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

6. Amortization

Amortization is a systematic allocation of the amortizable amount of an intangible asset over its useful life. The amortizable amount is the cost of the asset less its residual value.

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

Internally generated intangible assets are not systematically amortized as long as they are not available for use, i.e. they are not yet on site or in working condition for their intended use. Accordingly, these intangible assets, such as development costs, are tested for impairment at least once a year, until such date as they are available for use.

Note 3 – Significant Accounting Policies (Cont.)

E. Intangible Assets (Cont.)

6. Amortization (Cont.)

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

	In Years
Concessions*	*
Software costs	3–10
Trademarks	15–20
Agreements with customers	15–25
Agreements with suppliers and non-competition agreements	10–15
Patents	7–20

* Over the balance of the concession granted to ICL and its subsidiaries.

Deferred expenses in respect of geological surveys are amortized over their useful lives based on a geological estimate of the quantity of potash that will be produced from the mining site.

The Group examines the estimated useful life of the customer agreements on an ongoing basis, based on an analysis of the relevant evidence and factors – this being after taking into account the experience the Corporation has accumulated relating to repeat orders and attrition rates, and after considering the future economic benefits expected to flow to the Corporation deriving from these customer agreements.

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

F. Leased Assets

Leases wherein the Group bears most of the risks and rewards relating to the asset are classified as financing leases. At the time of the initial recognition, the leased assets are measured at an amount equivalent to the lower of the fair value and the present value of the minimum future lease fees. After the initial recognition, the asset is treated in accordance with the accounting policies covering such asset. The rest of the leases are classified as operating leases, where the leased assets are not recognized in the Corporation's statement of financial position. Payments as part of operating lease transactions are recorded in the statement of income based on the "straight-line" method over the life of the lease.

G. Inventories

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

Note 3 – Significant Accounting Policies (Cont.)

G. Inventories (Cont.)

The cost of the inventory of raw and auxiliary materials, maintenance materials, finished goods and goods in process, is determined mainly according to the "moving average" method.

If the benefit from the exploration stripping costs (costs of removal of waste incurred in mining activities of a mine during its production stage) is realized in the form of inventory, the Corporation treats these stripping costs as inventory. If the benefit is improved access to the quarry, the Corporation recognizes these costs as an increase to a non-current asset, upon fulfillment of the criteria presented in IFRIC 20.

Inventory the sale of which is expected to take place in a period of more than 12 months from the date of the report is presented as non-current inventory in the non-current assets section.

H. Capitalization of Credit Costs

The costs of specific credit and non-specific credit were capitalized to qualifying assets during the period required for completion and establishment until the time when they are ready for their intended use. Non-specific credit costs are capitalized in the same manner to the investment in qualifying assets or to the part thereof that was not financed by specific credit using an interest rate that is the weighted-average of the cost rates in respect of those credit sources that were not capitalized specifically. Other credit costs are charged to the statement of income as incurred. Income earned on the temporary investment of specific credit received for investing in a qualifying asset is deducted from the credit costs eligible for capitalization.

I. Impairment in Value

1. Non-derivative financial assets

A decline in value of a financial asset not presented at fair value through the statement of income is examined when there is objective evidence that a loss event has occurred after the initial recognition date and this loss event had a negative impact on the estimate of the future cash flows from the asset that can be reliably estimated.

Objective evidence that a decline in value of financial assets has occurred could include breach of a contract by the debtor, reorganization of the amount due to the Group based conditions the Group would not have considered in other circumstances, existence of signs that the debtor or issuer of the debt will go bankrupt or lack of an active market for the security.

When testing for impairment available-for-sale financial assets that are equity instruments, the Group also examines the difference between the fair value of the asset and its original cost while taking into consideration the standard deviation of the instrument's price, the length of time the fair value of the asset is lower than its original cost and changes in the technological, economic or legal environment or in the market environment in which the issuer of the instrument operates. In addition, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group examines evidence of a decline in value with respect to debtors and loans on a specific basis.

Note 3 – Significant Accounting Policies (Cont.)

1. Non-derivative financial assets (Cont.)

   Losses from impairment in value

   A loss from impairment in value of a financial asset measured at amortized cost is calculated as the difference between the carrying value of the asset in the books and the present value of the estimated cash flows, discounted at the asset's original interest rate. Losses are recorded in the statement of income and are presented as a provision for loss against the balance of the financial asset measured at amortized cost.

   Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that has been recognized in a capital reserve to profit or loss. The cumulative loss that is classified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected in the item of financing income.

   Elimination of a loss from decline in value

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

2. Non-financial assets

   Timing of examination of decline in value

   The book value of the Group's non-financial assets, other than inventory and deferred tax assets, is examined for each reporting period in order to determine if there are signs indicating impairment in value. If such signs exist, the estimated recoverable amount of the asset is calculated. The recoverable amount of goodwill, intangible assets having an undefined life or that are not available for use, is examined once a year, on a fixed date, for every cash-producing unit that includes goodwill, or more frequently if there are signs of a decline in value.

   Determination of cash-generating units

   For purposes of testing impairment in value, assets that cannot be examined specifically are grouped together into the smallest group of assets that yields cash flows from continuing use, which is essentially independent of the other assets and other groups ("cash-generating unit").

Note 3 – Significant Accounting Policies (Cont.)

I. Impairment in Value (Cont.)

2. Non-financial assets (Cont.)

Measurement of recoverable value

The recoverable amount of an asset or a cash-generating unit is the higher of its use value or the fair value minus selling costs. When determining the use value, the Group discounts the anticipated future cash flows using a discount rate reflecting evaluations of the market participants regarding the time value of the money and the specific risks attributed to the asset or the cash-generating unit, with respect to which the future cash flows expected to derive from the asset were not adjusted.

Allocation of goodwill to cash-generating units

Cash-generating units to which the goodwill is allocated are grouped so that the level at which the impairment in the value of the goodwill is tested reflects the lowest level at which the goodwill is monitored for internal reporting purposes, however that is not larger than the operating segment. Goodwill at the ICL level is analyzed at its segment level since it is not monitored for internal reporting purposes.

Recognition of a loss from impairment in value

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

Allocation of a loss from decline in value to non-controlling interests

A loss from impairment of value is allocated between the owners of the Corporation and the holders of non-controlling interests in accordance with the same basis that the income or loss is allocated. Nevertheless, if an impairment loss allocated to non-controlling interest relates to goodwill that was not recognized in the consolidated financial statements, the said impairment is not recognized as an impairment loss on goodwill. In such cases, only an impairment loss relating to goodwill that was allocated to the owners of the Company is recognized as an impairment loss on goodwill.

Cancellation of loss from decline in value

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

Note 3 – Significant Accounting Policies (Cont.)

I. Impairment in Value (Cont.)

3. Investments in associated companies accounted for by the equity method of accounting

An investment in an associated company is tested for purposes of impairment when objective evidence indicates there has been impairment (as detailed in Paragraph (1) above). Goodwill that constitutes part of the carrying amount of an investment in an associated company is not recognized separately and, therefore, is not tested for impairment separately.

If objective evidence indicates that the value of the investment may have been impaired, the Group estimates the recoverable amount of the investment, which is the greater of its value in use and its net selling price. When determining the value in use of an investment in an associated company, the Group estimates its share of the present value of estimated future cash flows that are expected to be generated by the associated company, including cash flows from operations of the associated company and the consideration from the final disposal of the investment, or the present value of the estimated future cash flows that are expected to be derived from dividends that will be received and from the final disposal.

An impairment loss is recognized when the carrying amount of the investment, after applying the equity method, exceeds its recoverable amount, and it is recognized in the "other expenses" in the statement of income.

An impairment loss is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment in an associated company.

An impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of the investment after the impairment loss was recognized, and only to the extent that the investment's carrying amount, after the reversal of the impairment loss, does not exceed the carrying amount of the investment that would have been determined by the equity method if no impairment loss had been recognized.

J. Non-Current Assets and Disposal Groups held for Sale or Distribution

Non-current assets (or groups of assets and liabilities for disposal) are classified as held for sale or distribution if it is highly probable that they will be recovered primarily through a sale transaction or a distribution to the owners and not through continuing use. This also applies when the Company is obligated to a sale plan that involves losing control over a subsidiary, whether or not the Company will retain any non-controlling interests in the former subsidiary after the sale.

Immediately before classification as held for sale or distribution, the assets (or components of a disposal group) are re-measured in accordance with the Group's accounting policies. Thereafter, the assets (or components of a disposal group) are measured at the lower of their carrying amount and fair value less costs to sell.

Note 3 – Significant Accounting Policies (Cont.)

J. Non-Current Assets and Disposal Groups held for Sale or Distribution (Cont.)

Any impairment loss on a disposal group is initially allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to assets not in the scope of the measurement requirements of IFRS 5 such as: inventories, financial assets, deferred tax assets, employee benefit assets, investment property measured at fair value and biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses recognized on initial classification as held for sale, and subsequent gains or losses on re-measurement, are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss recorded in the past.

In subsequent periods, depreciable assets classified as held for sale or distribution are not depreciated on a periodic basis, and investments in associated companies classified as held for sale are not accounted for by the equity method of accounting.

K. Employee Benefits

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

1. Defined contribution plans

A defined contribution plan is a post-employment benefit plan whereby the Group pays fixed contributions in to a separate entity and has no legal or implied liability to pay additional amounts.

The Group's obligation to make deposits in a defined contribution plan is recorded as an expense in the statement of income during the periods during which the employees provided the related services. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

2. Defined benefit plans

Defined benefit plans are post-employment benefit plans that are not a defined contribution plan.

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

Note 3 – Significant Accounting Policies (Cont.)

K. Employee Benefits (Cont.)

2. Defined benefit plans (Cont.)

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

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

(i) Current service costs – the increase in the present value of the liability deriving from service of employees in the current period;

(ii) Net financing income (expenses) are arrived at by multiplying the net defined benefit liability (asset) by the discount rate used for measurement of a defined benefit obligation, as determined at the beginning of the annual reporting period;

(iii) Exchange rate differences.

(iv) Past service costs and plan reduction – the change in the present value of the liability in the current period as a result of a change in the post-retirement benefits relating to prior periods.

The difference, as at the date of the report, between the net liability at the beginning of the period, plus the profit and loss movement, as described above, and the actuarial liability less the fair value of the plan assets at the end of the period, reflects the balance of the actuarial gains or losses recorded through the statement of other comprehensive income directly to the retained earnings.

The current interest expenses and the yield on the plan assets are recognized as interest expenses and income as part of the "financing" category, respectively.

3. Other long-term employee benefits

Some of the Corporation's employees are entitled to other long-term benefits that do not relate to a post-employment benefit plan. Actuarial gains and losses are recorded directly to the statement of income in the period they were incurred. In cases where the amount of the benefit is the same for every employee, without reference to the years of service, the cost of these benefits is recognized when the eligibility for the benefit is determined. The amount of these benefits is discounted to its present value pursuant to an actuarial valuation method.

Note 3 – Significant Accounting Policies (Cont.)

K. Employee Benefits (Cont.)

4. Compensation for early retirement

Compensation for early retirement of employees is recognized as an expense and a liability where the Group has clearly undertaken, with no genuine possibility for cancellation, to dismiss employees prior to their reaching the customary retirement date, in accordance with a formal detailed plan. The benefits given to employees upon voluntary retirement are charged as an expense when the Group proposes a plan to the employees encouraging voluntary retirement, and where it is expected that the proposal will be accepted and it is possible to reliably estimate the number of employees that will accept the proposal. If the benefits are payable more than 12 months after the end of the period of the report, they are discounted to their present value. The discount rate is determined based on the yield on the date of the report on high-quality, linked corporate debentures that are denominated in the same currency as the payment currency and the repayment date of which is roughly the same as the Group's obligation.

5. Short-term benefits

Obligations for short-term employee benefits are measured on a non-discounted basis, and the expense is recorded at the time the said service is provided. A provision in respect of short-term employee benefits relating to a cash bonus is recognized when the Group has a present legal or implied obligation to pay the said amount for a service provided by the employee in the past and where it is possible to reliably measure the said amount. Classification of employee benefits as short-term benefits or long-term benefits (for measurement purposes) is determined in accordance with the Group's expectation with respect to full utilization of the benefits and not based on the date on which the employee is entitled to utilize the benefit.

6. Share-based payment transactions

The fair value on the grant date of share-based payment grants to employees is recorded as a salary expense, with a corresponding increase in equity over the period in which an unconditional right to the grants is obtained. The amount recorded as an expense in respect of share-based payment grants, which are contingent on vesting conditions that are service conditions or performance conditions that are not market conditions, are adjusted in order to reflect the number of options that are expected to vest.

L. Provisions

A provision is recognized when the Group has a present legal or implied obligation as the result of an event that occurred in the past, when it can be reliably estimated and when it is expected that a flow of economic benefits will be required in order to settle the obligation. The provisions are determined based on capitalization of the future cash flows using a pre-tax interest rate reflecting the current market estimates with respect to the time value of money and the risks specific to the liability and without weighting the Corporation's credit risk. The book value of the provision is adjusted in every period in order to reflect the passage of time and is recognized as financing expenses. In rare cases wherein it is not possible to the possible outcome of the obligation, no provision is recorded in the financial statements.

Note 3 – Significant Accounting Policies (Cont.)

L. Provisions (Cont.)

The Group recognizes an indemnification asset only if it is virtually certain that the indemnification will be received if the Group settles the obligation. The amount recognized in respect of the indemnification does not exceed the amount of the provision.

1. Warranty

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

2. Provision for environmental costs

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

3. Site restoration

   In accordance with the Group's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land, and the related expense, is recognized when the land is contaminated.

4. Restructuring

   A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. The provision includes direct expenditures caused by the restructuring and necessary for the restructuring, and which are not associated with the Group's continuing activities.

5. Legal claims

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

Note 3 – Significant Accounting Policies (Cont.)

M. Recognition of Revenues

Sale of goods

Revenue from the sale of goods in the ordinary course of business is measured according to the fair value of the consideration received or to be received, after deducting returns, commercial discounts and quantity discounts. In cases where the credit period is short and constitutes the accepted credit period allowed in the sector, the future payment is not discounted. The Group recognizes the revenue when there is convincing proof (generally execution of a sale contract) that the significant risks and rewards from ownership of the merchandise are transferred to the buyer, receipt of the consideration is expected, it is possible to reliably estimate the chance that the goods will be returned and the costs that were incurred or will be incurred for the transaction can be reliably estimated, when the management has no ongoing involvement in the goods and the revenue can be reliably estimated. If it is expected that a discount will be granted and the amount thereof can be reliably measured, the discount is deducted from the revenue at the time of sale of the goods.

The timing of transfer of the risks and rewards vary depending on the individual terms of the contract of sale. For sales of products in Israel, transfer usually occurs when the product is received at the customer's warehouse, whereas for certain international shipments, the transfer occurs upon loading the goods onto the transport vehicles of the relevant carrier.

N. Financing Income and Expenses

Financing income includes income from interest on amounts invested, income from sale of financial assets classified as available for sale, changes in the fair value of financial assets presented at fair value through the income statement, gains from exchange rate differences, income deriving from revaluation of plan assets relating to defined benefit plans for employees and gains from financial hedging instruments recognized in the statement of income. Interest income is recognized as realized, using the effective interest method.

Financing expenses include interest on loans received, changes in the time value of provisions, changes in the fair value of financial assets presented at fair value through the income statement, costs in respect of securitization transactions, losses from impairment of value of certain financial assets, losses from financial hedging instruments recognized in the statement of income, and changes due to the passage of time in liabilities in respect of defined benefit plans for employees less the interest income deriving from plan assets relating to a defined benefit plan for employees and exchange rate losses. Credit costs, which are not capitalized, are recorded in the income statement using the effective interest method.

In the statements of cash flows, interest received is presented as part of cash flows from investing activities. Dividends received are presented as part of cash flow from operating activities Interest paid and dividends paid are presented as part of cash flows from financing activities. Accordingly, financing costs that were capitalized to qualifying assets are presented together with interest paid as part of cash flows from financing activities.

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either financing income or financing expenses depending on whether foreign currency movements are in a net gain or net loss position.

Note 3 – Significant Accounting Policies (Cont.)

O. Taxes on Income

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

Current taxes

The current tax is the amount of tax that is expected to be paid on the taxable income for the year, which is calculated according to the tax rates in effect according to the laws finally legislated or effectively legislated as at the date of the report, and includes changes in tax payments attributed to prior years and payment of tax in respect of dividends. The Group offsets current tax assets and liabilities if there is a legally enforceable right to offset current tax liabilities and assets, and the intention is to settle the current tax liabilities and assets on a net basis or the current tax assets and liabilities will be settled concurrently.

A provision in respect of uncertain tax positions is recognized where it is more likely than not that economic resources will be required to settle the obligation.

Deferred taxes

Recognition of deferred taxes is with respect to temporary differences between the book values of the assets and liabilities for purposes of financial reporting and their value for tax purposes. The Group does not recognize deferred taxes for the following temporary differences: initial recognition of goodwill, initial recognition of assets and liabilities for transactions that do not constitute a business combination and do not impact the accounting income and the income for tax purposes, as well as differences deriving from investments in subsidiaries and investments in companies accounted for using the equity method of accounting, if the Group controls the reversal date of the difference and it is not expected that they will reverse in the foreseeable future, whether through sale of the investment or distribution of dividends in respect of the investment. The measurement of deferred taxes reflects the tax consequences that will derive from the manner in which the Group expects, at the end of the period of the report, to recover or settle the carrying value of the assets and liabilities in the books. The deferred taxes are measured according to the tax rates that are expected to apply to the temporary differences at the time they are realized, on the basis of the laws finally legislated or effectively legislated as at the date of the report. The Group offsets deferred tax assets and liabilities if there is an enforceable legal right to offset current tax assets and liabilities and they are attributed to the same taxable income and are taxed by the same tax authority for the same assessed company or different companies that intend to settle deferred tax assets and liabilities on a net basis or if the current tax assets and liabilities are settled concurrently. A deferred tax asset is recognized in the books when it is expected that in the future there will be taxable income against which the deductible temporary differences can be utilized. Deferred tax assets are examined at each reporting date and if it is not expected that the related tax benefits will be realized, they are reduced.

Deferred tax assets not recognized are re-evaluated on every reporting date and are recognized if the expectation has changed such that in the future there will be taxable income against which they can be utilized.

Note 3 – Significant Accounting Policies (Cont.)

O. Taxes on Income (Cont.)

Additional tax in respect of dividend distribution

The Group could become liable for additional taxes in a case of distribution of dividends from Approved Enterprises between the Group companies. These additional taxes were not included in the financial statements in light of the policy of the Group companies not to cause distribution of a dividend that involves additional taxes to the recipient company in the foreseeable future, except in cases where one of the Group companies is expected to distribute a dividend out of earnings involving additional tax to the recipient company, in which case such company records a provision for tax in respect of additional tax for which it may be charged in connection with distribution of a dividend. Additional taxes deriving from distribution of dividends from an Approved Enterprise are recorded in the statement of income on the date on which the liability for payment of the dividends is recognized.

Tax refunds in respect of dividend distribution

The Group is entitled to tax refunds in respect of dividends received from an Approved Enterprise on the date of distribution thereof to its shareholders. Accordingly, the Corporation recognizes tax income in respect of tax refunds as stated on the declaration date of the dividend.

Intercompany transactions
Deferred tax in respect of transactions between companies in the consolidated report is recorded based on the tax rate applicable to the acquiring company.

P. Earnings per Share

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

Q. Non-current assets and disposal groups held for sale

Non-current assets (or groups of assets and liabilities for disposal) are classified as held for sale or distribution if it is highly probable that they will be recovered primarily through a sale transaction or a distribution to the owners and not through continuing use. This applies also to when the Company is obligated to a sale plan that involves losing control over a subsidiary, whether or not the Company will retain any non-controlling interests in the former subsidiary after the sale.

Immediately before classification as held for sale or distribution, the assets (or components of the disposal group) are re-measured in accordance with the Group's accounting policies. Thereafter, the assets (or components of the disposal group) are measured at the lower of their carrying amount and the fair value less cost to sell.

Note 3 – Significant Accounting Policies (Cont.)

Q. Non-current assets and disposal groups held for sale (Cont.)

Any impairment loss on a disposal group is initially allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to assets not in the scope of the measurement requirements of IFRS 5 such as: inventories, financial assets, deferred tax assets and employee benefit assets, which will continue to be measured in accordance with the Group's accounting policies. Impairment losses recognized on initial classification as held for sale, and subsequent gains or losses on re-measurement, are recognized in the statement of income. Gains are not recognized in excess of any previously-recorded cumulative impairment loss.

In subsequent periods, depreciable assets classified as held for sale or distribution are not depreciated.

R. Transactions with a Controlling Shareholder

Assets, liabilities and benefits with respect to which a transaction is executed with a controlling shareholder are measured at fair value on the transaction date. Due to the fact that a transaction at the capital level is involved, the Corporation records to equity the difference between the fair value and the consideration in the transaction.

S. First-Time Adoption of Amendments to Standards

Amendment of IAS 7 "Statement of Cash Flows"

Commencing from January 1, 2017, the Corporation applies the Amendment to IAS 7 "Statement of Cash Flows". According to the Amendment, an entity is required to provide disclosures that will enable the users of the financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. These disclosures will be provided with respect to the following changes in liabilities arising from financing activities: changes resulting from cash flows from financing activities; the impact of the changes in foreign currency exchange rates; changes in fair values; and other changes.

The Amendment is being applied prospectively. The new disclosure requirements are presented as part of Note 16H.

T. Standards and interpretations not yet Adopted

(1) **International Accounting Standard IFRS 15 "Revenue from Contracts with Customers" (hereinafter – "the Standard")**

The Standard replaces the current guidance regarding recognition of revenues and presents a new model for recognizing revenue from contracts with customers. The Standard is to be applied for annual periods beginning on or after January 1, 2018 and earlier application is permitted.

The Group examined the effects of application of the Standard and in its estimation application of the Standard is not expected to have a material impact on the financial statements.

Note 3 – Significant Accounting Policies (Cont.)

T. Standards and interpretations not yet Adopted (Cont.)

(2) **International Accounting Standard IFRS 9 (2014) "Financial Instruments" (hereinafter – "the Standard")**

The Standard replaces the currently existing provisions of IAS 39 "Financial Instruments: Recognition and Measurement" and includes updated provisions with respect to the classification and measurement of financial instruments, and a new model for measuring impairment of financial assets, a new model for recognition of expected credit losses ("the Expected Credit Loss Model") for most of the financial assets and liabilities, along with new provisions and requirements regarding hedge accounting.

The Standard is to be applied for annual periods commencing on January 1, 2018, and earlier application is permitted. The Standard is to be applied retroactively, except for certain relief provisions. The Group examined the effects of application of the Standard and in its estimation application of the Standard is not expected to have a material impact on the financial statements.

(3) **International Accounting Standard IFRS 16 "Leases" (hereinafter – "the Standard")**

The Standard replaces IAS 17 "Leases" and its related interpretations. The Standard's instructions annul the existing requirement from lessees to classify leases as operating or finance 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, and is considering applying the following main leniencies on the transition date:

– Not applying the requirement to recognize a right-of-use asset and a lease liability in respect of short-term leases of up to one year.

– Accounting for leases that are expected to end within 12 months from the transition date as short-term leases.

– Assessing whether an arrangement contains a lease only for new or modified contracts.

– Applying a single discount rate to a portfolio of leases with similar characteristics.

The Group is in a process of gathering all the information on its lease arrangements and evaluating the impact of implementing this Standard on the consolidated financial statements. At this time, the Group is unable to estimate the effect on its financial statements. The Standard is expected to impact the following matters: (1) an increase in non-current assets and financial liabilities; (2) a change in financial ratios; and (3) an increase in operating income and financing expenses.

Note 3 – Significant Accounting Policies (Cont.)

T. Standards and interpretations not yet Adopted (Cont.)

(3) **International Accounting Standard IFRS 16 "Leases" (hereinafter – "the Standard") (Cont.)**

ORL (an associated company) intends to make early adoption of the Standard commencing from January 1, 2018, using the "cumulative" approach, after 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 will make 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 9C(5) below.

(4) **Interpretation of IFRIC 23 "Uncertain Tax Positions" (hereinafter – "the Interpretation")**

The Interpretation clarifies how to apply the recognition and measurement requirements of IAS 12 for uncertainties in income taxes. According to the Interpretation, when determining the taxable income (loss), tax bases, unused tax losses, unused tax credits and tax rates when there is uncertainty over income tax treatments, the entity should assess whether it is probable that the tax authority will accept its tax position. To the extent it is probable that the tax authority will accept its tax position, the entity is to recognize the tax effects on the financial statements according to that tax position. On the other hand, if it is not probable that the tax authority will accept its tax position, the entity is required to reflect the uncertainty in its accounts. The Interpretation also emphasizes the need to provide disclosures of the judgments and assumptions made by the entity regarding uncertain tax positions.

The Interpretation is effective for annual reporting periods beginning on or after January 1, 2019. Early application is permissible. The Interpretation includes two alternatives for applying the transitional provisions, so that companies may choose between retrospective application or prospective application as from the first reporting period in which it initially applied the Interpretation.

The Group is examining the impacts of the Interpretation on the financial statements with no intention of making early adoption.

Note 4 – Determination of Fair Value

As part of its accounting policies and disclosure requirements, the Group is required to determine the fair value of both financial and non-financial assets and liabilities. The fair values have been determined for purposes of measurement and/or disclosure based on the following methods. Additional information regarding the assumptions used in determining the fair values is disclosed in the notes relating to that asset or liability.

Note 4 – Determination of Fair Value (Cont.)

A. Derivatives

The fair value of forward contracts on foreign currency is determined by weighting the exchange rate and the appropriate interest coefficient for the period of the transaction and the relevant currency index.

The fair value of currency options and options on shares is determined based on the Black and Scholes model, taking into account the intrinsic value, standard deviation and the interest rates.

The fair value of cross currency interest swap contracts is determined by discounting the estimated amount of future cash flows on the basis of terms and length of period to maturity of each contract, while using market interest rates of similar instruments at the measurement date.

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

Future contracts on energy prices are presented at their fair value, which is determined on the basis of quotes of the prices of the products on an ongoing basis. The reasonableness of the market price is examined by means of comparison to the quotes of banks.

Additional information with respect to the fair value hierarchies – see Note 33(G)(2) regarding "Financial Instruments".

B. Non-derivative financial liabilities

Non-derivative financial liabilities are measured at fair value, at initial recognition and for disclosure purposes, at each annual reporting date (other than when designated to fair value through profit or loss at initial recognition).

The fair value for disclosure purposes, is determined based on the quoted trading price in the market for traded debentures, whereas for non-traded debentures it is determined by discounting the present value of the future cash flows in respect of the principal and interest component using the market interest rate as at the date of the report. In respect of the liability component of financing lease agreements, the market rate of interest is determined by reference to the market terms of similar agreements.

Short-term trade and other payables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial.

Note 4 – Determination of Fair Value (Cont.)

C. Share-based payment transactions

The value of employee share options and of share appreciation rights is measured using the Black and Scholes model or a binomial model, based on the plan – see Note 21. The model's assumptions include the share price on the measurement date, exercise price of the instrument, expected volatility (based on the weighted-average of the historic volatility, the weighted-average expected life of the instruments, and on the basis of past experience and the general behavior of the option holders, expected dividends, and the risk-free interest rate (based on government debentures).

D. Investments in securities

The fair value of financial assets classified as "available for sale" or as "held for trading" is determined based on the stock market price on the date of the report. If the asset or liability measured at fair value has a proposed acquisition price (bid price) and a proposed selling price (ask price), the price in the range between them that best estimates the fair value under the circumstances will serve as the measurement of the fair value.

Note 5 – Assets and Liabilities Held for Sale

Pursuant to ICL's strategy to divest low synergies businesses, focus its operation on the minerals' chains, reduce the debt ratio and generate funds for growth initiatives, during 2017, ICL entered into the following sale agreements:

A. On December 7, 2017, ICL entered into an agreement to sell its fire safety and oil additives business (hereinafter – "the Business") to SK Invictus Holding L.P., an affiliate of SK Capital (hereinafter – "the Buyer"). The Business is part of ICL Specialty Solutions' Advanced Additives business line. Closing of the transaction is subject to several conditions which are expected to be met in the first half of 2018. The total consideration from the sale is expected to be in the amount of about $1 billion, before estimated selling costs and subject to customary closing adjustments regarding working capital and debt, of which $950 million in cash and up to about $53 million in the form of preferred equity certificates issued by a subsidiary of the Buyer. As a result from the sale, ICL expects to recognize a gain of about $840 million (upon closing of the transaction) and selling costs of approximately $15 million. In light of that stated, in the financial statements for 2017, ICL reclassified the Business as "assets and liabilities held for sale". See below.

B. On December 8, 2017, ICL closed the sale of its holdings (50%) in IDE Technologies Ltd, for a consideration of $168 million. In the financial statements for 2017, ICL recognized a capital gain of $41 million which was presented under "other income" in the consolidated statement of income.

Note 5 – Assets and Liabilities Held for Sale (Cont.)

The assets of the disposal groups classified as "held for sale" are shown below:

	December 31, 2017
	$ millions
Cash and cash equivalents	5
Trade and other receivables	41
Inventory	35
Property, plant and equipment	25
Intangible assets	63
	169

The liabilities of the disposal groups classified as "held for sale" are shown below:

	December 31, 2017
	$ millions
Trade and other payables	9
Other current liabilities	30
Long-term employee provisions	1
Deferred tax assets	3
	43

Note 6 – Short-Term Investments and Deposits

	As at December 31	
	2017	2016
	$ millions	
Short-term bank deposits *	**558**	640
Other	**–**	11
	558	651

* Includes deposits serving as collateral in the amount of $23 million – see Note 16G(1) (December 31, 2016 – $75 million).

Note 7 – Other Receivables and Debit Balances, including Derivative Instruments

	As at December 31	
	2017	2016
	$ millions	
Government institutions	**78**	39
Advances to suppliers	**10**	15
Current tax asset	**16**	66
Prepaid expenses	**33**	25
Derivative instruments (1)	**34**	40
Insurance receivables	**26**	6
Other	**63**	60
	260	251

(1) See Note 33.

Note 8 – Inventories

Composition

	As at December 31	
	2017	2016
	$ millions	
Finished products	**709**	773
Work in progress	**269**	267
Raw materials	**212**	194
Spare parts	**142**	129
	1,332	1,363
Less – non-current inventories (presented in non-current assets)	**106**	96
	1,226	1,267

Note 9 – Investments in Equity-Accounted Investee Companies

A. Condensed financial information regarding significant associated companies

ORL is making early adoption of the provisions of IFRS 9 (2013). Since Israel Corporation is not making early application of the said standard, Israel Corporation makes adjustments to ORL's statements in its financial statements. The data below includes the impacts of early adoption of the provisions of standard, as stated.

(1) Condensed financial information with respect to the statement of financial position

	Oil Refineries	
	As at December 31	
	2017	**2016**
	$ millions	
Country of incorporation	**Israel**	
Rate of ownership rights	**33.06%**	**37.08%**
Current assets	**1,604**	1,309
Non-current assets	**2,411**	2,359
Current liabilities	**(1,204)**	(1,124)
Non-current liabilities	**(1,607)**	(1,507)
Total net assets (100%)	**1,204**	1,037
Share of Corporation in net assets	**398**	385
Adjustments	**145**	170
Book value of investment**	**543**	555
Share in fair value of ORL shares	**505**	418

* On June 19, 2017, the Corporation sold 4% of the shares of ORL. For details – see Section C below.

(2) Condensed financial information with respect to the results of operations

	Oil Refineries		
	For the Year Ended December 31		
	2017	**2016**	**2015**
	$ millions		
Revenues	**5,624**	4,321	5,491
Income	**262**	158	225
Other comprehensive income (loss)	**(11)**	3	(7)
Total comprehensive income	**251**	161	218
Share of the Corporation in comprehensive income presented in the books **	**79**	53	76

** Without the impacts of early adoption of the provisions of IFRS 9 (2013.)

Note 9 – Investments in Equity-Accounted Investee Companies (Cont.)

B. Associated companies and joint ventures that are not significant each one taken separately

	2017	2016
	$ millions	
Book value of investments as at December 31	**35**	159

The combined results of the associated companies and joint ventures that are not significant when taken separately are not significant to the Corporation.

C. Additional information

ORL

(1) On June 19, 2017, the Corporation sold 128 million shares of Oil Refineries Ltd. (hereinafter – "ORL") it held, constituting about 4% of ORL's issued share capital, on a fully-diluted basis. The proceeds from the sale, net of selling expenses, amounted to about $56 million (about NIS 199 million). Shortly, after the said sale, the Corporation held about 33.08% of ORL's share capital, compared with about 37.08% prior to the sale, and together with partners it controls ORL. As a result of the sale, the Corporation realized a capital loss of about $3 million, which was recorded in the statement of income in the "other expenses" category.

(2) Undertaking for acquisition of natural gas

In December 2017, ORL signed an agreement for the supply of natural gas with Energean Israel Ltd. ("Energean"), which has holdings in the Karish and Tanin gas reservoirs ("the Gas Reservoir"). Under the agreement, ORL will purchase natural gas in the quantities and for the periods agreed on for operation of its facilities and the facilities of subsidiaries in Haifa Bay. The agreement is subject to the fulfillment of preconditions, including its approval by the General Meeting of the ORL's shareholders by a special majority (the approval was obtained subsequent to the date of the report in January 2018) and approval of the Antitrust Authority. As at the approval date of ORL's financial statements, some of the preconditions had not yet been fulfilled.

The negotiations with Energean were carried on jointly by ORL, Israel Chemicals Ltd. (ICL) and O.P.C. Energy Ltd. (a company related to the controlling shareholder of Israel Corporation) (hereinafter – "OPC"), this being in order to leverage their combined purchasing power in order to obtain preferential purchase terms from Energean. Nonetheless, the supply agreement was signed by each of the companies separately and the agreement with each company is independent and is not dependent on the other agreements.

Note 9 – Investments in Equity-Accounted Investee Companies (Cont.)

C. Additional information (Cont.)

ORL (Cont.)

(2) Undertaking for acquisition of natural gas (Cont.)

The highlights of the agreement are set forth below:

(a) The total quantity of gas that ORL expects to purchase from Energean is 17 BCM over the entire expected supply period.

(b) The supply period will commence when gas starts to flow from the gas reservoir, and is expected to end when the full contractual quantity is consumed or 15 years from the date of supply of natural gas to ORL – whichever occurs first. If the entire contractual quantity is not consumed, the parties may extend the supply agreement for an additional period, subject to compliance with the terms and objectives defined in the agreement.

(c) A take or pay mechanism for a minimum annual quantity of natural gas (80% of the adjusted annual amount), in accordance with the mechanism determined.

(d) The price of natural gas will be determined according to an agreed formula, which is generally based on linkage to an electricity generation component and includes a minimum price. The minimum price set is $3.975 per unit of energy.

(e) The agreement includes other provisions and arrangements, which are standard in agreements for the purchase of natural gas, including in the matter of maintenance, gas quality, limitation of liability, buyer and seller collateral, endorsements and liens, dispute resolution, and the operation mechanisms of the agreement.

(f) The agreement includes circumstances in which each of the parties may terminate the agreement before the end of the contractual period, including in cases of prolonged non-supply, damage to collateral, and others.

In addition, the agreement includes milestones for performance of activities essential for development of the gas reservoir, where in a case they are not fulfilled, the possibility will exist to bring the agreement to an end. Furthermore, under certain circumstances, compensation was determined in the event of a delay in the start of the gas flow.

The total monetary scope of the agreement may reach $2.5 billion (assuming maximum consumption according to the agreement and according to implementation of the gas price formula as at the date of the report), and it depends mainly on the electricity generation component and the scope and rate of gas consumption.

For details regarding a derivative claim filed subsequent to the date of the report in connection with the transaction for acquisition of natural gas from Energean – see Note 20B(3).

(3) As at December 31, 2017, ORL and its subsidiaries, Carmel Olefins and Gadiv, are in compliance with all the financial covenants determined for them in connection with their liabilities.

Note 9 – Investments in Equity-Accounted Investee Companies (Cont.)

C. Additional information (Cont.)

ORL (Cont.)

(4) On November 15, 2017, ORL's Board of Directors approved, subject to receipt of approval of the General Meeting of the shareholders with a special majority, distribution of an interim dividend, in the amount of $65 million, on the basis of ORL's financial statements as at September 30, 2017. Subsequent to the date of the report, on January 14, 2018, the General Meeting of the shareholders approved, with a special majority, and on January 31, 2018, the dividend was paid (the share of Israel Corporation in the dividend, after taxes, is about $21.5 million). The dividend to be distributed, if distributed, will be out of earnings that are not entitled to benefits under the Law for Encouragement of Capital Investments, 1959.

On November 24, 2016, ORL's Board of Directors discussed distribution of a dividend, in the amount of $85 million, on the basis of ORL's financial statements as at September 30, 2016. On January 5, 2017, the General Meeting approved distribution of the dividend and, on January 22, 2017, the dividend was paid (the share of Israel Corporation in the dividend, after taxes, is about $30 million).

(5) ORL intends to make early application of IFRS 16 "Leases", commencing from January 1, 2018. Since Israel Corporation does not intend to make early adoption of the Standard, Israel Corporation will make adjustments to ORL's financial statements.

ORL plans to elect to apply the transitional provision of recognizing a lease liability on the initial application date according to the present value of the future lease payments discounted at the incremental borrowing rate of the lessee as at that date, unless it is aware of the interest rate inherent in the lease (corresponding to the balance of the lease period) and concurrently recognizing a right-of-use asset at the same amount of the liability (to be recognized under fixed assets). Therefore, application of the Standard is not expected to have an effect on the balance of the retained earnings (and accordingly, on equity) on the date of initial application.

For leases in which ORL is the lessee and which were classified before the date of initial application as operating leases, ORL will recognize on the initial application date a right-of-use asset and a lease liability at for all the leases that provide it control over the use of identified assets for a specified period of time. These changes are expected to result in an increase of $80–$100 million in the balance of right-of-use assets on the date of initial application and a corresponding increase in the balance of the lease liability. In addition, with reference to the rights in certain assets, ORL has not yet completed an examination of the consequences of the first-time application of IFRS 16 on its financial statements, and based on preliminary estimates, these rights may have an impact of up to an additional $50 million on the balance of right-of-use assets on the date of the first-time application against a corresponding increase in the lease liabilities. Accordingly, depreciation expenses will be recognized in respect of the right-of-use asset, and the need to recognize an impairment loss with respect to the right-of-use asset will be examined in accordance with IAS 36. Furthermore, financing expenses will be recognized in respect of the lease liability. Therefore, as from the date of initial application, the lease expenses relating to assets leased under an operating lease, which were included in the cost of sales (and included in EBITDA) will be depreciated under depreciation expenses in subsequent periods.

Note 9 – Investments in Equity-Accounted Investee Companies (Cont.)

C. Additional information (Cont.)

ORL (Cont.)

(5) (Cont.)

As a result of the initial application, ORL does not anticipate significant changes in its principal financial ratios or its ability to comply with the financial covenants applicable to it by virtue of the financing agreements and deeds of trust.

It should be noted that the information presented in this Note is based on ORL's understanding of the provisions of IFRS 16 as at the approval date of the financial statements and based on ORL's intention to elect certain alternatives regarding the adoption of the Standard. If ORL's understanding and/or selection of the alternatives change upon final adoption of the Standard, there may be changes in the information presented above.

(6) The public debentures of ORL are rated by Standard and Poor's Maalot (S&P), the Israeli Securities Rating Company Ltd. (hereinafter – "S&P"). On April 9, 2017, S&P raised the rating of the ORL and the rating of its public debentures from ilBBB+ to ilA–, with a stable rating outlook.

(7) During March 2017, ORL entered into an agreement (hereinafter – "the Agreement") relating to availability of an inventory of raw materials, mainly crude oil (hereinafter – "the Crude Oil") with an international company. Execution of the agreement commenced in the second quarter of 2017. The Agreement permits ORL to reduce over the period of the Agreement the amounts of inventory of the Crude Oil it holds without an inventory availability transaction, and as a result, to optimally manage its operating inventory balances, and to enjoy the financial advantages stemming from holding reduced inventory quantities, in the scope of 1.8 million barrels, release of cash, in the amount of about $85 million, and diversification of its sources of financing.

(8) Israel Corporation has a control permit whereby it is permitted to control ORL and to hold 24% or more of the means of control over ORL, alone, or together with Israel Petrochemical Works Ltd. and Petroleum Capital Holdings Ltd., in accordance with the provisions of the joint control agreement of ORL. On February 2, 2017, the joint control agreement was revised and it was provided that the control nucleus shares will constitute 30% of ORL's issued and paid-up share capital on that date and they will be distributed based on an internal ratio between the controlling shareholders in the ratio of 55.625% to Israel Corporation and 44.375% to Israel Petrochemical Works Ltd.

(9) In order to maintain ORL's operations, ORL is dependent on services from the infrastructure companies Petroleum and Energy Infrastructures Ltd. and Eilat Ashkelon Pipeline Company Ltd., which own crucial infrastructure for the unloading, shipping, storage, and production of crude oil and oil products, and Israel Natural Gas Lines Ltd., which owns crucial infrastructure for delivery of natural gas.

D. Restrictions

ORL

ORL is subject to financial conditions and restrictions with respect to distribution of dividends as a result of financial conditions on the part of the debenture holders and the banks, as well as legal restrictions.

Note 10 – Business Combinations and Transactions with Non-Controlling Interests

A. Non-controlling interests in subsidiaries

The following tables summarize information regarding a Group subsidiary, including adjustments to fair value made on the acquisition date, except for goodwill, in which there are non-controlling interests that are significant to the Group (before elimination of intercompany transactions):

	Israel Chemicals Ltd.	
	As at December 31	
	2017	**2016**
	$ millions	
Country of incorporation	**Israel**	
Rate of holdings (see section b below)	**47.60%**	48.65%
Rate of non-controlling interests	**52.40%**	51.35%
Current assets	**2,725**	2,571
Non-current assets	**6,056**	6,054
Current liabilities	**(2,328)**	(2,023)
Non-current liabilities	**(3,470)**	(3,886)
Total net assets	**2,983**	2,716
Book value of non-controlling interests	**1,624**	1,457

	For the year ended		
	2017	**2016**	**2015**
		$ millions	
Revenues	**5,418**	5,363	5,405
Income (loss) for the year	**364**	(122)	509
Other comprehensive income (loss)	**86**	(119)	(159)
Total comprehensive income (loss)	**450**	(241)	350
Income (loss) attributable to non-controlling interests	**171**	(112)	256
Cash flows provided by operating activities	**847**	966	573
Cash flows used in investing activities	**(333)**	(800)	(547)
Cash flows provided by (used in) financing activities without dividends to non-controlling interests	**(387)**	(152)	193
Dividends paid to non-controlling interests	**(124)**	(87)	(178)
Total increase (decrease) in cash and cash equivalents	**3**	(73)	41

Note 10 – Business Combinations and Transactions with Non-Controlling Interests (Cont.)

A. Non-controlling interests in subsidiaries (Cont.)

The following table summarizes information regarding non-controlling interests in a subsidiary of ICL, YPH JV, which are at the rate of 50%. The non-controlling interests are significant to ICL (before elimination of intercompany transactions). The information includes adjustments to the fair value that were made on the acquisition date, except for goodwill, without adjustments for the rates of ownership held by ICL.

	2017	2016
	$ millions	
Current assets	**197**	227
Intangible assets	**69**	64
Other non-current assets	**302**	314
Current liabilities	**241**	268
Non-current liabilities	**215**	197
Equity	**112**	140
Revenues	**363**	377
Operating loss	**(21)**	(78)
Depreciation and amortization	**34**	34
Operating income (loss) before depreciation and amortization	**13**	(44)
Net loss	**(38)**	(104)
Comprehensive loss for the period	**(52)**	(126)

Note 10 – Business Combinations and Transactions with Non-Controlling Interests (Cont.)

B. Transactions with non-controlling interests

On September 24, 2014, the Corporation entered into transactions with respect to shares of ICL, for listing of ICL's shares for trading on the New York Stock Exchange (NYSE), in the United States, with entities from the Morgan Stanley and Goldman Sachs groups (hereinafter – "the Financial Entities") (of the Variable Prepaid Forward derivative type on the basis of an ISDA agreement) in connection with 36.2 million shares of ICL (hereinafter – "the Financial Transaction" or "the Transaction" and "the Transaction Shares", respectively), which were transferred into the name of the Financial Entities.

During 2016, the closing period for the Financial Transaction started, which will be executed in accordance with the agreement in increments ("tranches") on a number of closing dates that will take place during about three years. Closing of the Financial Transaction will be effected by a "physical settlement" pursuant to the terms of the Transaction, such that the Corporation will not receive a return of the number of shares as part of each tranche, and it will be credited for their value as part of the accounting between it and the Financial Entities, this being unless the Corporation notifies the Financial Entities otherwise with respect to each relevant tranche.

During 2017 and 2016, the Corporation executed a financial closing by means of a "physical settlement", in accordance with the terms of the Financial Transaction, as stated, and as a result the number of shares held by the Corporation declined by about 12,577 thousand and about 2,287 thousand shares, respectively. As at December 31, 2017, the rate of the Corporation's holdings in ICL's issued share capital was about 47.60%, compared with 48.65% at the beginning of the year. As at the date of the report, the balance of the remaining shares in the Financial Transaction is about 21,343 thousand shares, and the balance of the Transaction period is about 1.75 years. As a result of the drop in the rate of holdings, in 2017 the Corporation recognized an increase in the rights of the holders of non-controlling interests, in the amount of about $30 million, along with an increase in the retained earnings, in the amount of about $21 million, stemming from the difference between the "physical settlement" plus closing of the derivative that stood against it, and the increase in the rights of the holders of non-controlling interests. Subsequent to the date of the report, up to March 22, 2018, the financial closing was completed with respect to an additional 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 that date was about 47.42%.

Even though the Corporation holds less than half of the voting rights in ICL, Management reached the conclusion that the Corporation has effective control over ICL since the rest of the voting rights therein are widely dispersed among a large number of investors and there is no indication that the other shareholders will exercise their rights in a collective manner. In addition, there is a Special State Share in ICL, as stated in Section D. below.

For details in connection with the Financial Transaction – see Note 16E1j.

Note 10 – Business Combinations and Transactions with Non-Controlling Interests (Cont.)

C. Loss of control of a subsidiary of ICL

Commencing from June 2015, ICL held 100% of the shares of Allana Afar (hereinafter – "Allana"), which held a concession for mining potash in Ethiopia. In 2016, in light of issuance of a tax assessment, which ICL contends is illegal, and in light of a lack of support from the Government of Ethiopia in connection with construction of infrastructures and creation of the regulatory framework required for establishment of the project, Management decided to take all necessary actions towards termination of the project, including notification by Allana of cancellation of the mining agreement and return of the concession site to the Ethiopian government. During 2017, ICL took actions to shut down the project with various parties in the Ethiopian government, including, a process of voluntary liquidation of ICL and appointment of a liquidator on its behalf. Due to the above and following the Company's examination, ICL believes that it lost effective control over Allana in 2017. As a result, in the financial statements for 2017, ICL deconsolidated Allana's assets (goodwill) and liabilities (tax provision) and recognized a gain from loss of control, in the amount of $7 million, presented under "other income" in the consolidated statement of income.

D. Restrictions

ICL

1. ICL and certain of its subsidiaries, issued a "Special State Share", which is held by the State of Israel, for purposes of protecting the State's vital interests, and which grants to the State, among other things, special rights in making decisions with respect to the following matters:

   a. Sale or transfer of ICL assets that are imperative for the State, not in the ordinary course of business.

   b. Voluntary liquidation or a change or reorganization of ICL's organizational structure or a merger (except for mergers of companies controlled by ICL in which there is no impairment to the rights or powers of the State of Israel as the holder of the Special State Share).

   c. Acquisition or holding of shares in ICL which represent 14% or more of the issued share capital of ICL.

   d. Acquisition or holding of ICL shares constituting 25% or more of ICL's issued share capital (including supplementing the holding to 25%) even if agreement had been received in the past regarding holdings of less than 25%.

   e. Any rate of holdings in the shares of ICL that provides the holder the right, ability or practical possibility to appoint, directly or indirectly, a number of ICL directors constituting half or more of the member of ICL's Board of Directors as are actually appointed.

2. Regarding restrictions due to receipt of credit – see Note 16C(2).

3. Regarding restrictions due to sale of customer receivables as part of a securitization transaction – see Note 16D.

4. Regarding liabilities secured by a lien – see Note 16G2.

Note 11 – Loan to Related Company

Credit agreement for Kenon

A. Conditions

During 2016 and 2015, pursuant to a credit framework agreement between the Corporation and Kenon Holdings Ltd. (hereinafter – "Kenon"), the Corporation provided Kenon a loan, in the amount of $200 million. Pursuant to the loan agreement, Kenon placed a lien in favor of the Corporation on 66% of the issued share capital of I.C. Power – its wholly-owned subsidiary.

Pursuant to the agreement, the repayment date of the loan will fall in 2020, with the possibility on the part of Kenon to extend the repayment date up to 2025 or after the passage of 18 months from execution of an initial public offering of I.C. Power, whichever occurs first, and alternatively, Kenon may make early repayment of the loan at any time, with no penalty. The loan bears interest at the annual rate of 6% above the 12-month Libor rate. The rate of the interest was set based on the determination of an external appraiser.

Subsequent to the date of the report, on January 2, 2018, Kenon repaid the full amount of the loan (principal and interest) and, accordingly, the Corporation received the amount of about $240 million and the lien was cancelled. As at December 31, 2017, the balance of the loan was reclassified in the statement of financial position from long-term to short-term.

Note 12 – Other Non-Current Assets

	As at December 31	
	2017	**2016**
	$ millions	
Excess assets of defined benefit plan	**89**	78
Non-current inventory	**106**	96
Lease rights	**106**	107
Other	**8**	8
	309	289

Note 13 – Property, Plant and Equipment

A. Composition

	For the Year Ended December 31, 2017						
	Balance at beginning of year	Additions	Disposals	Impairment	Impact of changes in exchange rates	Classification to assets intended for sale	Balance at end of year
	$ millions						
Cost							
Land, land development, roads, buildings and leasehold improvements	860	42	(6)	–	49	(4)	941
Installations, machinery and equipment	5,408	302	(28)	–	136	(30)	5,788
Dams and evaporation ponds	1,715	140	–	–	33	–	1,888
Heavy mechanical equipment, railroad cars and containers	149	7	(12)	–	7	(1)	150
Office furniture and equipment, motor vehicles and other equipment	243	13	(17)	–	9	(7)	241
	8,375	504	(63)	–	234	(42)	9,008
Plants under construction (1)	879	(14)	–	–	35	(2)	898
Balance at December 31, 2017	9,254	490	(63)	–	269	(44)	9,906
Accumulated depreciation							
Land, land development, roads, buildings and leasehold improvements	451	27	(4)	–	24	(1)	497
Installations, machinery and equipment	3,232	227	(23)	13	85	(14)	3,520
Dams and evaporation ponds	944	84	–	–	25	–	1,053
Heavy mechanical equipment, railroad cars and containers	83	7	(12)	–	7	(1)	84
Office furniture and equipment, motor vehicles and other equipment	181	14	(17)	–	6	(3)	181
Balance at December 31, 2017	4,891	359	(56)	13	147	(19)	5,335
Depreciated balance at December 31, 2017	4,363	131	(7)	(13)	122	(25)	4,571

(1) The additions for the year are presented net of assets the construction of which was completed and, therefore, they were reclassified to other property, plant and equipment categories.

Note 13 – Property, Plant and Equipment (Cont.)

A. Composition (Cont.)

	For the Year Ended December 31, 2016						
	Balance at beginning of year	**Additions**	**Disposals**	**Impairment**	**Impact of changes in exchange rates**	**Classification to assets intended for sale**	**Balance at end of year**
	$ millions						
Cost							
Land, land development, roads, buildings and leasehold improvements	857	24	(4)	–	(17)	–	860
Installations, machinery and equipment	5,038	488	(49)	–	(72)	3	5,408
Dams and evaporation ponds	1,634	89	–	–	(8)	–	1,715
Heavy mechanical equipment, railroad cars and containers	157	2	(10)	–	–	–	149
Office furniture and equipment, motor vehicles and other equipment	235	18	(10)	–	(2)	2	243
	7,921	621	(73)	–	(99)	5	8,375
Plants under construction (1)	976	(83)	–	–	(14)	–	879
Balance at December 31, 2016	8,897	538	(73)	–	(113)	5	9,254
Accumulated depreciation							
Land, land development, roads, buildings and leasehold improvements	434	25	(2)	1	(7)	–	451
Installations, machinery and equipment	3,085	218	(41)	5	(35)	–	3,232
Dams and evaporation ponds	848	102	–	–	(6)	–	944
Heavy mechanical equipment, railroad cars and containers	84	8	(9)	–	–	–	83
Office furniture and equipment, motor vehicles and other equipment	175	15	(8)	–	(1)	–	181
Balance at December 31, 2016	4,626	368	(60)	6	(49)	–	4,891
Depreciated balance at December 31, 2016	4,271	170	(13)	(6)	(64)	5	4,363

(1) The additions for the year are presented net of assets the construction of which was completed and, therefore, they were reclassified to other property, plant and equipment categories.

Note 14 – Intangible Assets

A. Composition:

	2017								
	Goodwill	Concessions and mining rights	Trademarks	Technology/ patents	Customer contacts	Exploration and evaluation assets	Computer applications	Other	Total
	$ millions								
Cost									
Balance at January 1, 2017	611	242	86	80	213	35	63	78	1,408
Additions	–	–	–	3	–	1	10	3	17
Exit from the consolidation	(55)	–	–	–	–	–	–	–	(55)
Impact of changes in exchange rates	16	12	7	7	16	3	2	–	63
Classification to assets intended for sale	(11)	–	(2)	(10)	(47)	–	(1)	(46)	(117)
Balance at December 31, 2017	561	254	91	80	182	39	74	35	1,316
Amortization and impairment losses									
Balance at January 1, 2017	53	73	19	35	87	9	55	51	382
Amortization for the year	–	9	3	5	12	1	3	5	38
Impairment	–	–	1	–	–	14	–	–	15
Impact of changes in exchange rates	1	–	1	3	5	1	2	1	14
Classification to assets intended for sale	–	–	–	(7)	(11)	–	(1)	(35)	(54)
Balance at December 31, 2017	54	82	24	36	93	25	59	22	395
Depreciated balance as at December 31, 2017	507	172	67	44	89	14	15	13	921

Note 14 – Intangible Assets (Cont.)

A. Composition: (Cont.)

	2016								
	Goodwill	Concessions and mining rights	Trademarks	Technology/ patents	Customer contacts	Exploration and evaluation assets	Computer applications	Other	Total
	$ millions								
Cost									
Balance at January 1, 2016	583	299	86	82	211	143	253	80	1,737
Acquisitions as part of business combination from prior year	26	–	–	–	–	–	–	–	26
Additions	–	1	1	1	6	19	59	–	87
Eliminations	–	(52)	–	–	–	(126)	(249)	–	(427)
Impact of changes in exchange rates	2	(6)	(1)	(3)	(5)	(1)	(3)	(2)	(19)
Classification to assets intended for sale	–	–	–	–	1	–	3	–	4
Balance at December 31, 2016	611	242	86	80	213	35	63	78	1,408
Amortization and impairment losses									
Balance at January 1, 2016	53	66	16	31	76	7	53	46	348
Amortization for the year	–	7	3	5	13	2	3	5	38
Eliminations	–	–	–	–	–	–	(2)	–	(2)
Impact of changes in exchange rates	–	–	–	(1)	(2)	–	(1)	–	(4)
Classification to assets intended for sale	–	–	–	–	–	–	2	–	2
Balance at December 31, 2016	53	73	19	35	87	9	55	51	382
Depreciated balance as at December 31, 2016	558	169	67	45	126	26	8	27	1,026

Note 14 – Intangible Assets (Cont.)

B. The total carrying value in the books of intangible assets with a defined useful life and with an undefined useful life

	As at December 31	
	2017	2016
	$ millions	
Intangible assets with a defined useful life	**383**	436
Intangible assets with an undefined useful life	**538**	590
	921	1,026

Note 15 – Examination of Impairment in Value

A. Examination of Impairment of Intangible Assets having an Indefinite Life

Goodwill

The goodwill created at the ICL level is not monitored for internal reporting purposes by ICL and, therefore, it is allocated to ICL's operating segments and not to the cash-producing units, the level of which is lower than these operating segments. Examination of impairment of the goodwill is made accordingly. In addition, the goodwill created at the level of Israel Corporation in respect of acquisitions of ICL shares made by the Corporation in the past is allocated to the Essential Minerals segment.

As a result of the loss of control of Allana Afar (see Note 10C above), ICL eliminated $55 million of goodwill, constituting part of the gain from loss of control, which is presented in the "other income" category in the consolidated statement of income.

Other intangible assets with an undefined useful life (trademarks)

For the purpose of testing impairment, other intangible assets with an undefined useful life are allocated to ICL's cash-generating units that represent the lowest level within ICL.

Note 15 – Examination of Impairment in Value (Cont.)

A. Examination of Impairment of Intangible Assets having an Indefinite Life (Cont.)

The aggregate carrying amounts of intangible assets having an undefined useful life are as follows:

	As at December 31	
	2017	**2016**
	$ millions	
Goodwill		
Essential Minerals	**300**	347
Specialty Solutions	**207**	211
	507	558
Trademarks – ICL		
Industrial Products, United States	**13**	13
Advanced Additives, United States	**7**	9
Food, United States	**5**	5
Industrial Products, Europe	**6**	5
	31	32
	538	590

In January 2017, as a result of a structural change in ICL, ICL Specialty Fertilizers (which was previously presented under the Specialty Solutions segment) is presented as part of the Essential Minerals segment. The comparative figures for goodwill were adjusted in order to reflect the change.

Regarding examination of impairment of the goodwill, the after-tax discount rate used in calculation of the recoverable amount of the operating segments is 6% (real) – 8% (nominal). The long-term growth rates are between 0% and 2% in accordance with the different industries and markets in which ICL's activity segments operate.

The recoverable amount of ICL's activity segments was determined based on their value in use, which is an internal estimate of the discounted cash flows that will derive from the continued operation of ICL's activity segments. In an examination made it was determined that the carrying value in the books of ICL's activity segments is less than their recoverable amount and, accordingly, no impairment loss was recognized.

B. Losses from Impairment in Value

1. As a result of the findings of geological surveys made with respect to potential new mining areas (Greenfield) nearby to ICL's mining facilities in Spain, and taking into account the conditions in the potash market, in 2017, ICL's management decided that it does not intend, in the foreseeable future to develop the said area. As a result, in the financial statements for 2017, a reduction was recorded, in the amount of about $14 million, representing the full amount of the value of the asset, which is presented in the "other expenses" category in the consolidated statement of income.

Note 15 – Intangible Assets (Cont.)

B. Losses from Impairment in Value (Cont.)

2. In the period of the report, ICL examined the recoverable amount of its assets in Zhapu (part of Industrial Products in China), in the view of the decision to postpone the Specialty Fertilizers (SF) project, which was planned to be established in the Zhapu plant in the upcoming years, and in light of updates to the marketing plans of water disinfectant products (biocides) that are presently manufactured on the site. The examination included a comparison of the discounted value of the expected cash flows based on a 5-year cash-flow projection, where the fifth year was selected as the representative year, against the carrying value of the assets in ICL's books. The examination indicated that the recoverable amount of ICL's assets is lower than their book value and, accordingly, ICL included a provision for impairment in the amount of $11 million, which is presented in the "other expenses" category in the consolidated statement of income.

Note 16 – Loans and Credit from Banks and Others

This Note provides information regarding the contractual conditions of the Group's interest bearing loans and credit, which are measured based on amortized cost. Additional information regarding the Group's exposure to interest risks, foreign currency and liquidity risk is provided in Note 33, in connection with financial instruments.

A. Composition

Current liabilities

	As at December 31	
	2017	**2016**
	$ millions	
Short-term credit:		
Short-term loans from financial institutions	**635**	572
Current maturities of long-term liabilities:		
Loans from financial institutions	**92**	103
Debentures	**174**	271
	266	374
Total current liabilities	**901**	946

Non-current liabilities

Marketable debentures	**2,470**	2,402
Non-marketable debentures	**275**	275
Loans from financial institutions*	**1,615**	2,243
Loans from others	**98**	87
Total other long-term liabilities	**4,458**	5,007
Less current maturities*	**(266)**	(374)
Total non-current liabilities	**4,192**	4,633

* see next page.

Note 16 – Loans and Credit from Banks and Others (Cont.)

B. Repayment dates

The credit and loans from banks and other providers of credit includes debentures (after deduction of current maturities) are scheduled for repayment in the years following the date of the report, as follows:

	December 31	
	*2017	*2016
	$ millions	
Second year	**586**	522
Third year	**879**	605
Fourth year	**477**	654
Fifth year	**759**	1,259
Sixth year and thereafter	**1,491**	1,593
	4,192	4,633

* Includes amounts for repayment of a loan taken as part of the Financial Transaction, as stated in Section E1(j), below, as follows: in the first year the amount of about $70 million and in the second year the amount of about $58 million.

C. Restrictions on the Group in connection with receipt of credit

1. The Corporation and companies wholly owned and controlled by the Corporation (100%) (hereinafter – "the Headquarters Companies")

Restrictions in connection with credit agreements with banks

Collaterals for the credit agreements

As part of the various credit agreements of the Corporation and the Headquarters Companies, in the amount of about $703 million (without the Financial Transaction) that were received from banks, and SWAP transactions in respect of CPI-linked and shekel liabilities, the Corporation committed to provide collaterals for fulfillment of the credit. The collaterals may be given in cash and/or marketable shares as agreed to by the lenders. The balance of the collaterals is derived from the balance of the total credit, the value of the collaterals at that time, the scope of the trading in the shares and the number of shares traded and agreed-to coverage ratios. In some of the agreements, a minimum price and/or a minimum ratio of the value of the collaterals to the total credit was determined, where this ratio derives from the price of an ICL share and/or an ORL share on the Tel-Aviv Stock Exchange and the shekel/dollar exchange rate, that is, the dollar price of an ICL share and/or an ORL share, and in some of the agreements there is a minimum ratio of the average trading value to the total credit, where this ratio stems from the average volume of ICL shares in units, the price of an ICL share on the Tel-Aviv Stock Exchange and the shekel/dollar exchange rate.

Note 16 – Loans and Credit from Banks and Others (Cont.)

C. Restrictions on the Group in connection with receipt of credit (Cont.)

1. The Corporation and companies wholly owned and controlled by the Corporation (100%) (hereinafter – "the Headquarters Companies") (Cont.)

Restrictions in connection with credit agreements with banks (Cont.)

Collaterals for the credit agreements

The Corporation has the right to adjust the value of the collaterals by adding collaterals or exchanging them, as well as a right to make early repayment of the credit in accordance with the conditions provided in the relevant financing agreement.

In order to secure loans, the Corporation has pledged cash and shares of ICL and ORL – for details see Section G1 below.

In a case where the price of an ICL share drops below $2.4 per share without having received the consent of the lender under any of the relevant agreements, as applicable, this will constitute grounds for calling the credit for immediate repayment.

In addition, in a case where the price of an ORL share drops below $0.23 (as at December 31, 2017 and 2016 the price of an ORL share was about $0.48 and about $0.35, respectively), and upon the existence of certain conditions, shares of ORL will not be considered as collateral for the loan. Furthermore, certain restrictions were provided with respect to the number of ORL shares that serve as collateral and, some of the Headquarters Companies committed not to place a lien on additional shares of ICL they hold.

During 2016, the Corporation made adjustments and revisions, and also made early repayment under the financing agreements, as a result of which the financial covenant of 60% was cancelled as grounds for calling the debt for early repayment.

Other terms

In some of its agreements covering loans taken out by the Corporation and the Headquarters Companies, various limitations were provided, including the commitment of the Corporation and the Headquarters Companies for continued control of the Corporation by the current controlling shareholders and continued control by the Corporation of ICL and a cross default mechanism, and other causes of action that are customary in credit agreements were also included in the agreements.

Note 16 – Loans and Credit from Banks and Others (Cont.)

C. Restrictions on the Group in connection with receipt of credit (Cont.)

1. The Corporation and companies wholly owned and controlled by the Corporation (100%) (hereinafter – "the Headquarters Companies") (Cont.)

Additional detail regarding significant loans of the Corporation and the Headquarters Companies as at December 31, 2017*

	Balance of loan principal ($ millions)	Remaining period until repayment	Collateral in shares **** (millions (of shares)	Collaterals in cash ($ millions)	Interest rate	Additional conditions***
Bank A ** (the borrowing company is the Corporation)						See Section E1(a) below.
Bank B (the borrowing company is the Headquarters Companies)	250	2.6 years bullet	118 ICL shares 319 ORL shares	–	4.03%	In the agreement, which was amended on March 29, 2016, customary obligations and grounds were provided, such as, a commitment of the Corporation and of the Headquarters Companies for continued control of the Corporation by the present controlling shareholders, and continued by the Corporation of ICL, delinquency in repayment of the loan, non-payment of debts to creditors on time in excess of a certain cumulative amount, appointment of a liquidator or a receiver for the Headquarters Companies, insolvency of the Headquarters Companies or of ICL, a material adverse change in certain conditions, suspension of ICL's shares from trading and imposition of an attachment on a significant part of the assets of the Headquarters Companies, where upon the existence thereof, subject to the conditions of the agreement, the provider of the credit may demand immediate repayment of the loan. In addition, in a case where the price of an ICL share drops below $2.4 this will constitute grounds for calling the credit for immediate repayment. In a case where the price of an ORL share drops below $0.23, and upon the existence of certain conditions, ORL shares will not be considered a collateral for the loan. Furthermore, certain limitations were determined regarding the number of ORL shares serving as a collateral, and the Headquarters Companies committed not to pledge additional ICL shares they hold. See Section E1(b) below.

* The Corporation has additional loans that are not included in the above detail.

** On December 31, 2017, the Corporation made early repayment, in the amount of about $30 million and, as a result, the balance of the loan is no longer material to the Corporation and the Headquarters Companies.

*** In certain loan agreements, minimum ratios were provided between the value of the collaterals, based on the stock market price, provided by the Corporation as collateral for those loans in the range of 167%–230%. In addition, the possibility exists to add collaterals for purposes of compliance with the minimum ratios.

**** A lien by the Corporation and the Headquarters Companies.

Note 16 – Loans and Credit from Banks and Others (Cont.)

C. Restrictions on the Group in connection with receipt of credit (Cont.)

1. The Corporation and companies wholly owned and controlled by the Corporation (100%) (hereinafter – "the Headquarters Companies") (Cont.)

Additional detail regarding significant loans of the Corporation and the Headquarters Companies as at December 31, 2017 (the signing date of the financial statements)* (Cont.)

	Balance of loan principal ($ millions)	Remaining period until repayment	Collateral in shares **** (millions (of shares)	Collaterals in cash ($ millions)	Interest rate	Additional conditions***
Bank C (the borrowing company is the Corporation)	150	2.9 years bullet	89.6 ICL shares	23	4.80%	Instructions of addition / release of collaterals provisions were set, based on a minimum ratio of the level of liquidity in the trading of ICL's shares for part of the amount of the credit. In addition, different limitations were provided, including, a cross default mechanism, a commitment of the Corporation and of the Headquarters Companies for continued control of the Corporation by the present controlling shareholders, and continued control by the Corporation of ICL, and including customary grounds, such as delinquency in repayment of the loan, non-payment of debts to creditors on time in excess of a certain cumulative amount, appointment of a liquidator or a receiver for the Corporation, insolvency of the Corporation or of ICL, a cross violation upon the existence of certain conditions, a material adverse change in certain conditions, suspension of ICL's shares from trading and imposition of an attachment on a significant part of the Corporation's assets, where upon the existence thereof, subject to the conditions of each agreement, the provider of the credit may demand immediate repayment of the loan. See Section E1(c) below.

* The Corporation has additional loans that are not included in the above detail.

*** In certain loan agreements, minimum ratios were provided between the value of the collaterals, based on the stock market price, provided by the Corporation as collateral for those loans in the range of 167%–230%. In addition, the possibility exists to add collaterals for purposes of compliance with the minimum ratios.

**** A lien by the Corporation and the Headquarters Companies.

Note 16 – Loans and Credit from Banks and Others (Cont.)

C. Restrictions on the Group in connection with receipt of credit (Cont.)

1. The Corporation and companies wholly owned and controlled by the Corporation (100%) (hereinafter – "the Headquarters Companies") (Cont.)

Additional detail regarding significant loans of the Corporation and the Headquarters Companies as at December 31, 2017 (the signing date of the financial statements)* (Cont.)

	Balance of loan principal ($ millions)	Remaining period until repayment	Collateral in shares **** (millions (of shares)	Collaterals in cash ($ millions)	Interest rate	Additional conditions***
Consortium of banks (the borrowing company is the Corporation)	193.3	2.4 years bullet	123 ICL shares	–	5.41%	In the agreement, which was amended on May 9, 2017, the Corporation made early repayment of about $50 million and the repayment date of the balance of the loan, in the amount of about $193 million, was extended for a period of 3 years. In addition, deposits made as security in favor of the said loan, in the amount of about $60 million, were released. In the agreement, customary obligations and grounds were provided, such as, a commitment of the Corporation and of the Headquarters Companies for continued control of the Corporation by the present controlling shareholders, delinquency in repayment of the loan, non-payment of debts to creditors on time in excess of a certain cumulative amount, appointment of a liquidator or a receiver for the Corporation, insolvency of the Corporation or ICL, a cross violation upon the existence of certain conditions, a material adverse change in certain conditions and imposition of an attachment on a significant part of the Corporation's assets, where upon the existence thereof, subject to the conditions of the agreement, the provider of the credit may demand immediate repayment of the loan. In addition, there are grounds upon the existence of which the lenders are permitted to demand repayment of the loan, including a decrease in the price of an ICL share below $2.35 per share and an increase in the net financial debt (as defined in the credit agreement) over the amount provided in the agreement. Furthermore, it was provided that execution of a distribution, as defined in the credit agreement will be subject to certain conditions, in a format similar to the trust indentures of the Corporation's debentures. See Section E1(d) below.

* The Corporation has additional loans that are not included in the above detail.

*** In certain loan agreements, minimum ratios were provided between the value of the collaterals, based on the stock market price, provided by the Corporation as collateral for those loans in the range of 167%–230%. In addition, the possibility exists to add collaterals for purposes of compliance with the minimum ratios.

**** A lien by the Corporation and the Headquarters Companies.

Note 16 – Loans and Credit from Banks and Others (Cont.)

C. Restrictions on the Group in connection with receipt of credit (Cont.)

1. The Corporation and companies wholly owned and controlled by the Corporation (100%) (hereinafter – “the Headquarters Companies”) (Cont.)

<u>Restrictions relating to the debentures</u>

(A) The debentures (Series 10) and debentures (Series 11) are unsecured and include standard terms and conditions and events of default as are customary in a case of insolvency, as well as a mechanism to raise the interest rate in the event of a decrease of the rating of the debentures (the interest rate will be increased by 0.25% per decrease in the rating of the debentures by one rating level, starting from a rating of ilA+ and reaching a maximum cumulative interest rate addition of 1% upon reaching a rating of ilBBB), a negative pledge not to place a lien on more than 500 million shares of ICL under certain conditions, financial covenants, conditions for distribution of dividends and additional conditions as appearing in the trust deeds. In 2016, as a result of reduction of the rating, there was a change in the interest rate on the above-mentioned debentures, as detailed in Section E1(f) below.

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

The Corporation’s minimum shareholders’ equity shall not drop below $360 million.

The ratio of the Corporation’s shareholders’ equity to its total assets in accordance with its separate-company (solo) statement of financial position less solo liquid assets (cash and short-term deposits) plus the net financial liabilities of the headquarters companies shall not drop below 20%.

As at December 31, 2017, the Corporation was in compliance with the financial covenants determined.

(B) On November 25, 2014, at a General Meeting of the holders of the debentures (Series 7 and Series 9) that were issued by the Corporation (hereinafter – “the Debentures”), an amendment to the trust deeds of the relevant series was approved in a special decision for each series separately. These amendments included, among others, a one-time compliance with a net balanced of financial liabilities after the completion date of the transaction, conditions for distribution of dividends, payment of management fees and self-acquisition of shares, a commitment not to make additional investments and 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 each rating reduction starting from a rating of ilA+ (the rating in effect on the date the amendment entered into effect) and up to a maximum cumulative (additional) rate of 0.75%), along with other conditions as they appear in the trust indenture. In 2016, as a result of reduction of the rating, there was a change in the interest rate on the above-mentioned debentures, as detailed in Section E1(f) below.

Note 16 – Loans and Credit from Banks and Others (Cont.)

C. Restrictions on the Group in connection with receipt of credit (Cont.)

1. The Corporation and companies wholly owned and controlled by the Corporation (100%) (hereinafter – "the Headquarters Companies") (Cont.)

Restrictions relating to the debentures (Cont.)

(C) Subsequent to the date of the report, 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. The impact of the update of the interest and payment of the one-time commission on the Corporation's financing expenses, are not expected to be material.

2. ICL

As part of the loan agreements ICL has signed, various restrictions were provided including financial covenants, a cross-default mechanism and a negative pledge.

Set forth below is information regarding the financial covenants applicable to ICL as part of the loan agreements and the compliance therewith:

Financial Covenants (1)	Financial Ratio Required under the Agreement	Financial Ratio as at December 31, 2017
Equity	Shareholders' equity greater than $2,000 million	$2,859 million
The ratio of the EBITDA to the net interest expenses	Equal to or greater than 3.5	9.36
Ratio of the net financial debt to the EBITDA	Less than 4.25 (2)	2.56
Ratio of the financial liabilities of the subsidiaries of ICL to the total consolidated assets of ICL	Less than 10%	4.91%

(1) Examination of compliance with the above financial covenants is made as required based on the data from ICL's consolidated financial statements.

(2) Pursuant to the financial covenants of ICL, as at December 31, 2018 and 2019, the required ratio of the net financial debt to EBITDA, is less than 4.0 and 3.5, respectively.

Note 16 – Loans and Credit from Banks and Others (Cont.)

D. Sale of customer receivables as part of a securitization transaction

In July 2015, ICL and certain Group subsidiaries (hereinafter – "the Subsidiaries") signed a series of agreements regarding a securitization transaction with three international banks (hereinafter – "the Lending Banks") for the sale of their customer receivables to a foreign company which was established specifically for this purpose and which is not owned by the ICL Group (hereinafter – "the Acquiring Company").

Those agreements replace the prior securitization agreements, in the amount of $350 million, which came to an end in July 2015. The main structure of the new securitization agreement is the same as the prior securitization agreement. ICL's policy is to utilize the securitization limit based on its cash-flow needs, alternative financing sources and market conditions. The new securitization agreement will expire in July 2020.

In the agreement, ICL undertook to comply with a financial covenant whereby the ratio of net debt to EBITDA will not exceed 4.75. If ICL does not comply with the said ratio, the Acquiring Company is allowed to discontinue acquiring new trade receivables (without affecting the existing acquisitions). As at the date of the report, ICL is in compliance with the aforementioned financial covenant.

The Acquiring Company finances acquisition of the debts by means of a loan received from a financial institution, which is not related to ICL, which finances the loan out of the proceeds from the issuance of commercial paper on the U.S. commercial paper market. The repayment of both the commercial paper and the loan are backed by credit lines from the Lending Banks. During July 2017, ICL reduced the securitization framework from $405 million to $350 million for purposes of optimal utilization of the financing sources.

The acquisitions are on an ongoing basis, such that the proceeds received from customers whose debts were sold are used to acquire new trade receivables. The period in which the Subsidiaries are entitled to sell their trade receivables to the Acquiring Company is five years from the closing date of the transaction, where both parties have the option at the end of each year to give notice of cancellation of the transaction.

The selling price of the trade receivables is the amount of the debt sold, less the calculated interest cost based on the anticipated period between the sale date of the customer debt and its repayment date. Upon acquisition of the debt, the Acquiring Company pays the majority of the debt price in cash and the remainder in a subordinated note, which is paid after collection of the debt sold. The rate of the cash consideration varies according to the composition and behavior of the customer portfolio. The Subsidiaries handle collection of the trade receivables included in the securitization transaction, on behalf of the Acquiring Company.

Note 16 – Loans and Credit from Banks and Others (Cont.)

D. Sale of customer receivables as part of a securitization transaction (Cont.)

In addition, as part of the agreements a number of conditions were set in connection with the quality of the customer portfolios, which give the Lending Banks the option to end the undertaking or determine that some of the Subsidiaries, the customer portfolios of which do not meet the conditions provided, will no longer be included in the securitization agreement.

The securitization of trade receivables does not meet the conditions for disposal of financial assets prescribed in International Standard IAS 39, regarding Financial Instruments – Recognition and Measurement, since ICL did not transfer all of the risks and rewards deriving from the trade receivables. Therefore, the receipts received from the Acquiring Company are presented as a financial liability as part of the short-term credit. As at December 31, 2017, utilization of the securitization facility and trade receivables within this framework amounted to $331 million (as at December 31, 2016, approximately $331 million).

At the moment ICL has transferred the balance of its trade receivables, it no longer has the right to sell them to another party. In a case of non-collection of the credit (a credit default), ICL bears 30% of the amount of the trade receivables.

The value of the assets transferred (the fair value thereof), the fair value of the liabilities and the balance of the net positions are shown below:

	As at December 31		
	2017	**2016**	**2015**
		$ millions	
Value of the assets transferred	**331**	331	285
Fair value of the liabilities	**331**	331	285
Net position*	**–**	–	–

* Less than $1 million.

Note 16 – Loans and Credit from Banks and Others (Cont.)

E. Details regarding significant loans and debentures

Borrower	Type of instrument	Date loan taken out/ recycled	Principal in original currency (in millions)	Linkage basis	Book value at December 31 2017 ($ millions)	Interest rate	Principal repayment date	Additional information
Israel Corporation								See Note 16C(1) – Bank A and Section E1(a) below
	Loan from Bank B	2016	250	Dollar	250	4.03%	August 2020	See Note 16C(1) – Bank B and Section E1(b) below
	Loan from Bank C	2015	150	Dollar	150	4.80%	December 2020	See Note 16C(1) – Bank C and Section E1(c) below
	Consortium of banks	2017	193.3	Dollar	193.3	5.41%	May 2020	See Note 16C(1) – Consortium and Section E1(d) below
	Debentures (Series 7) including expansions	2007 2010 2012 2015	820 467 447 730	NIS linked to the CPI	682	4.95%	2018-2021 (annual payments)	See Section E1(g) below and Note 16C
	Debentures (Series 9) including expansions	2011 2012	470 184	NIS	–	6.25%		See Section E1(h) below and Note 16C
	Debentures (Series 10)	2016	675	NIS	195	4.10%	6 unequal payments, starting from May 31, 2019: the 1st and 2nd –10%, the 3rd –15%, the 4th and 5th – 20%, and the 6th payment 25% of the principal	See Section E1(e) below and Note 16C
	Debentures (Series 11)	2016 2017	511 790	Dollar Dollar	337 337	5.25% 5.25%		See Section E1(e) below and Note 16C

Note 16 – Loans and Credit from Banks and Others (Cont.)

E. Details regarding significant loans and debentures (Cont.)

Borrower	Type of instrument	Date loan taken out/ recycled	Principal in original currency (in millions)	Linkage basis	Book value at December 31 2017 ($ millions)	Interest rate	Principal repayment date	Additional information
ICL	Loan from Israeli institutions	November 2013	300	NIS	76	4.94%	2015-2024 (annual payments)	Partly repaid
	Debentures (Series D)	December 2014	800	Dollar	792	4.5%	December 2024	A
	Loan from European bank	December 2015 December 2013	129	Dollar	129	Libor + 1.4%	December 2019	
	Debentures (Series E)	April 2016	1,569	NIS	449	2.45%	2021-2024 (annual payments)	B
	Debentures Private offering 3 series	January 2014	84 145 46	Dollar	84 145 46	4.55% 5.16% 5.31%	January 2021 January 2024 January 2026	
	Loan from international institutions	July 2014	27	Euro	26	2.33%	2019-2024	Partly repaid
	Loans from others	April–October 2016	600	Chinese yuan	92	5.23%	2019	
	Loan from European bank	December 2014	161	Brazilian real	30	CDI + 1.35%	2015-2021 (2 payments per year)	
	Loan from Asian bank	October 2017	400	Chinese yuan	61	CNH Hibor + 0.5%	April 2018	
	Loan from Asian banks	June–October 2017	700	Chinese yuan	108	4.72%	2018	

Note 16 – Loans and Credit from Banks and Others (Cont.)

E. Details regarding significant loans and debentures (Cont.)

1. <u>The Corporation</u>

A. On December 31, 2017, the Corporation made early repayment, in the amount of about $30 million, out of the balance of the loan of Bank A. Accordingly, the balance of the loan is no longer a material loan to the Corporation.

B. Subsequent to the date of the report, in February 2018, the Corporation and the Headquarters Companies made early repayment, in the amount of about $100 million, out of the balance of the loan of Bank B. The main terms of the loan remained unchanged.

C. Subsequent to the date of the report, in March 2018, the Corporation and the Headquarters Companies made early repayment, in the amount of about $50 million, out of the balance of the loan of Bank C, and released a deposit of about $8 million that had been deposited as collateral in connection with the said loan. The main terms of the loan remained unchanged.

D. In May 2017, the Corporation signed an agreement with a consortium of banks, whereby the Corporation made early repayment of about $50 million out of the balance of the loan and signed an extension of the repayment date of the balance of the loan, in the amount of about $193 million, for a period of three years. In addition, deposits were released that had been made as collaterals in favor of the said loans, in the amount of about $60 million. The Corporation has no deposits serving as collateral for the said loan.

E. On January 5, 2017, the Corporation raised, by means of expansion of the debentures (Series 11), the amount of about NIS 810 million. S&P gave notice of provision of a rating of ilA for the above-mentioned debentures in the expansion (the Corporation's rating at that time was ilA/Stable).

F. On January 26, 2016, S&P, announced confirmation of the rating ilA+ and a change of the rating outlook to negative. On November 22, 2016, S&P, announced a reduction of the rating ilA+/Negative to ilA/Stable due to an erosion of the consolidated debt coverage ratio. The rating outlook is stable. As a result of that stated above and in accordance with the terms of the trust indentures of the debentures (Series 7, 9, 10, 11), additional interest of 0.25% was added to the annual interest rate on the balance of the debenture principal. The impact of the rating reduction on the Corporation's annual financing expenses is not expected to be material.

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

Subsequent to the date of the report, on March 13, 2018, S&P gave notice of confirmation of the rating for the outstanding debentures (Series 7), (Series 10) and (Series 11), and granting of a rating of ilA for issuance of new debentures (Series 12) and (Series 13), in an amount of up to NIS 400 million par value.

Note 16 – Loans and Credit from Banks and Others (Cont.)

E. Details regarding significant loans and debentures (Cont.)

1. The Corporation

G. Debentures (Series 7) – in March 2017, the Corporation paid the amount of about $155 million (less hedging transactions). Subsequent to the date of the report, in March 2018, the Corporation paid the amount of about $160 million (less hedging transactions).

H. Debentures (Series 9) – in 2017, the Corporation paid the amount of about $117 million (less hedging transactions). Payment of the current maturities of the debentures (Series 9), in the amount of about $57 million was postponed based on the provisions of the trust indentures from December 31, 2016 to January 1, 2017, since the contractual payment date was not a business day. At the end of 2017, the debentures (Series 9) were repaid in full.

I. During 2017, the Corporation and the Headquarters Companies paid long-term loans, in the amount of about $90 million, of which about $80 million constituted an early repayment. Subsequent to the date of the report, together with that stated in Sections B and C, the Corporation made early repayment of loans, in the aggregate amount of about $200 million.

H. Financial Transaction in connection with shares of ICL

Further to that stated in Note 10C, in September 2014, the Corporation entered into a transaction with the financial entities in connection with 36.2 million shares of ICL, which were transferred into the name of the financial entities. As part of the transaction, the financial entities provided an initial amount of about $191 million, which is essentially a loan. About 24 million shares out of the financial transaction shares were offered for sale through underwriters as part of a prospectus published by ICL in New York.

The balance of the loan as at December 31, 2017, was about $128 million.

With respect to the financial transaction, it is noted that on the dates set for closing of the transaction an accounting will be made between the Corporation and the financial entities of their liabilities with reference to the transaction's components – all in accordance with the terms of the financial transaction, the highlights of which are set forth below:

1. As part of the Financial Transaction, the Corporation will receive protection against a decline in the price of an ICL share below an average of 90% of the price of an ICL share in the said tender offer of ICL's shares on the New York Stock Exchange, and the Financial Entities will profit from an increase in the price of an ICL share above an average of 130%.

2. In addition, the Corporation transferred all the transaction shares into the name of the Financial Entities for purposes of hedging the exposure from their standpoint, which will be permitted to execute any transaction in the shares (the Financial Entities may buy and sell ICL shares from time to time during the period of the Financial Transaction and in connection therewith or at the end of it).

Note 16 – Loans and Credit from Banks and Others (Cont.)

E. Details regarding significant loans and debentures (Cont.)

1. The Corporation (Cont.)

H. Financial Transaction in connection with shares of ICL (Cont.)

3. The financial closing is expected to take place in increments, on a number of closing dates that will occur over the course of a period of between two years and five years from the execution date of the Financial Transaction, and in an average period of three and a half years (it is noted that the period of the Transaction and the finish dates may change, due to, among other things, an early closing of the Transaction, as stated below, or as a result of changes and adjustments made during the life of the Transaction). Subject to the terms of the Financial Transaction, the Corporation will have the possibility of, among other things, choosing not to receive a return of the Transaction Shares and the Corporation will be credited with their value against the payments due from the Corporation ("physical settlement") or to receive a return of the number shares and to repay the amount of the loan. If the Corporation did not give notice of its choice, a physical settlement will be made. The Corporation is not required to repay the loan in cash or to add collaterals or additional shares.

4. It is clarified that the Corporation will have no voting rights in respect of the Transaction Shares. It is further clarified that as part of the Financial Transaction there are arrangements whereby in a case of distribution of a cash dividend by ICL during the period of the Financial Transaction, the Corporation will be entitled to receive the amount of the dividend in respect of part of the Transaction Shares in accordance with the calculation model of the Financial Entities.

5. In the Financial Transaction provisions were made regarding, among other things, liabilities and representations of the Corporation (including indemnity provisions and restrictions with respect to execution of transactions in ICL shares during the closing period), for early closing of the Transaction, as well as violation events upon the occurrence of which the Financial Entities will have the possibility, among other things, of closing the Transaction early without returning the Transaction Shares. It is further noted that the terms of the Transaction include provisions regarding making of changes in the structure of the Transaction and/or adjustments by the Financial Entities during the Transaction period, including with reference to its various components, the period and dates of the changes therein, among other things, as a result of certain events in ICL or its shares and changes in the relevant market conditions.

The components of the undertaking were separated and measured separately, such that in the first stage the derivatives relating to the hedging of the price of an ICL share (including the dividend adjustment component that is not received by the Corporation) were measured based on fair value, and will be measured subsequently based on fair value in the statement of income. On the other hand, the loan component was measured based on the amount of the transaction consideration after eliminating the fair value of the derivatives recognized, as stated above. The loan is measured in subsequent periods based on the effective interest method. The fair value of the derivatives on the transaction date, as at December 31, 2017, is about $47 million and the derivatives are classified as assets.

Note 16 – Loans and Credit from Banks and Others (Cont.)

E. Details regarding significant loans and debentures (Cont.)

1. The Corporation (Cont.)

H. Financial Transaction in connection with shares of ICL (Cont.)

As a result of measurement of the options at their fair value, including the dividend adjustment component, in 2017 the Corporation realized losses, in the amount of about $7 million (in 2016 – losses of about $5 million), which were included as part of the "other income (expenses)" category in the statement of income. Measurement of the fair value of the options, as stated, was classified at Level 3 in the fair value hierarchy – see Note 33G.

2. ICL

A. Debentures (Series D) – private issuance of debentures pursuant to Rule 144A and Regulation S under the U.S. Securities Act of 1933, as amended, to institutional investors in the U.S., Europe, and Israel. The notes are registered for trade in the TACT Institutional; by the Tel-Aviv Stock Exchange Ltd. The notes have been rated BBB (stable).

In March 2017, the rating company "Fitch Rating Ltd." reduced the rating outlook of ICL's credit, together with the rating of the debentures, from a rating of BBB to a rating of BBB–, with a stable rating outlook. In November 2017, the rating company "Standard & Poor's" confirmed the rating of ICL's credit, together with the rating of the debentures, at BBB–, with a stable rating outlook. Subsequent to the date of the report, on March 21, 2018, the rating company, Fitch Ratings, confirmed ICL's international credit rating (BBB–), with a stable rating outlook.

B. Debentures (Series E) – the debentures were listed for trading on the Tel-Aviv Stock Exchange. The Debentures are unsecured and contain standard terms and conditions and events of default, as well as a mechanism to raise the interest rate in the event of a decrease in the rating of the Debentures (the interest rate will be increased by 0.25% per decrease in the rating by one rating level, starting at a rating of (ilA) and reaching a maximum cumulative interest rate increase of 1% upon reaching a rating of (ilBBB)), a negative pledge undertaking and financial covenants ((1) minimum equity of not less than $1.55 billion; and (2) net debt to EBITDA ratio of not more than 1:5.5). On November 1, 2017, the rating agency Standard & Poor's Maalot confirmed ICL's rating of ilAA. The rating outlook is stable.

Note 16 – Loans and Credit from Banks and Others (Cont.)

F. Credit lines

Lender	European bank	Group of eleven international banks	U.S. bank	European bank
Date credit line granted	March 2014	March 2015	March 2016	December 2016
Credit line expiration date	March 2020	March 2022*	March 2022*	June 2023
Amount of the credit line	$35 million €60 million*	$1,705 million	$150 million	$136 million
Credit line used	–	$530 million**	–	–
Interest rate	Up to 33% use of the credit: Libor/Euribor + 0.90%. From 33% to 66% use of the credit: Libor/Euribor + 1.15% 66% or more use of the credit: Libor/Euribor + 1.40%	Up to 33% use of the credit: Libor/Euribor + 0.7%. From 33% to 66% use of the credit: Libor/Euribor + 0.8% 66% or more use of the credit: Libor/Euribor + 0.95%	Up to 33% use of the credit: Libor + 0.65%. From 33% to 66% use of the credit: Libor + 0.75% 66% or more use of the credit: Libor + 0.95%	Libor + 0.75%
Type of loan	U.S dollar loans and euro loans	U.S dollar loans and euro loans	U.S dollar loans	U.S dollar loans
Liens and restrictions	See Section C2 regarding “Financial Covenants”, cross default mechanism and a negative pledge	See Section C2 regarding “Financial Covenants”, cross default mechanism and a negative pledge	See Section C2 regarding “Financial Covenants”, cross default mechanism and a negative pledge	See Section C2 regarding “Financial Covenants”, and a negative pledge
Non-utilization fee	0.32%	0.21%	0.19%	0.30%

* Updated during 2017.
** As at the date of the report, ICL had utilized an additional $320 million.

Note 16 – Loans and Credit from Banks and Others (Cont.)

G. Liabilities secured by liens and restrictions imposed in connection with liabilities

1. The Corporation and companies wholly owned and controlled by the Corporation (100%) (hereinafter – "the Headquarters Companies")

a. As at December 31, 2017, as collateral for loans (not including the loan as part of the Financial Transaction) in the amount of about $703 million (as at December 31, 2016 – about $793 million) and currency SWAP transactions, the Corporation and the Headquarters Companies have placed liens on ICL at the rate of 31.4% of ICL's share capital (as at December 31, 2016 – 33%), and on ORL at the rate of 10% of the share capital of ORL (as at December 31, 2016 – 10%), and have placed a lien on cash of about $23 million (as at December 31, 2016 – about $75 million).

Subsequent to the date of the report, due to an early repayment made by the Corporation and the Headquarters Companies, cash that served as security was released from the lien, in the amount of about $8 million, and there was a change in the rate of the ICL shares pledged out of the total share capital of ICL and the rate of the ORL shares pledged out of the total share capital of ORL to 23% and 6%, respectively.

As at December 31, 2017, the balance of the cash collaterals is about $23 million. According to the cash collaterals and the securities on deposit with banks, the closest/highest price of an ICL share according with which additional collaterals will be required is $3.50 and the lowest price is $2.77. (The price of an ICL share on December 31, 2017 was $4.02).

As at December 31, 2016, the balance of the cash collaterals is about $75 million. According to the cash collaterals and the securities on deposit with banks, the closest/highest price of an ICL share according with which additional collaterals will be required is $3.42 and the lowest price is $3.03. (The price of an ICL share on December 31, 2016 was $4.11).

b. Regarding addition of collaterals in loans agreements – see Note 16C(1).

1. ICL

In respect of loans and credit received by ICL from banks outside of Israel, ICL has undertaken various obligations, including a negative pledge, whereby it has undertaken to banks, among other things, to restrict guarantees and indemnities to third parties (other than guarantees in respect of subsidiaries) up to an agreed amount for $550 million. ICL has also undertaken to grant loans only to subsidiaries and to associated companies in which it holds at least 25% of the voting rights – up to the amount stipulated by the agreement with the banks. ICL has also undertaken not to grant any credit, other than in the ordinary course of business, and not to register any charges, including rights of lien, except those defined in the agreement as "liens permitted to be registered" on its present and future assets or income. Regarding financial covenants in respect of the said loans – see Section C2 above.

Note 16 – Loans and Credit from Banks and Others (Cont.)

H. Movement deriving from financing activities

	Short-term credit, debentures and long-term credit	Financial derivatives
	$ millions	
Liability as at January 1, 2017	**5,620**	**7**
Receipt of long-term loans	**309**	**–**
Repayment of long-term loans	**(748)**	**–**
Credit frameworks utilized, net	**(318)**	**–**
Receipt of short-term loans, net	**147**	**–**
Receipts from transactions in derivatives for hedging purposes	**–**	**3**
Interest paid	**(218)**	**–**
Net cash used in (provided by) financing activities	**(828)**	**3**
Impact in the changes in the foreign current exchange rates	**205**	**20**
Repayment of collar loan – non-cash (see Section E1(j) above)	**(79)**	**–**
Other changes (mainly financing expense)	**215**	**6**
	341	**26**
Liability as at December 31, 2017	**5,133**	**36**

Note 17 – Other Payables and Credit Balances, including Financial Instruments

	As at December 31	
	2017	**2016**
	$ millions	
Financial instruments (1)	**4**	13
The State of Israel – mainly for royalties (2)	**67**	117
Employees	**240**	211
Accrued expenses	**106**	99
Income tax payable	**92**	99
Other	**161**	221
	670	760

(1) See mainly Note 33A.
(2) See mainly Note 20D.

Note 18 – Provisions

A. Composition of provisions and movement therein

	Site restoration, and clearance and dismantling of PP&E	Legal claims	Other	Total
	$ millions			
Balance at January 1, 2017	172	17	79	268
Provisions recorded during the year (1)	**17**	**19**	**4**	**40**
Provisions cancelled during the year	**–**	**(2)**	**(3)**	**(5)**
Payments made during the year	**(6)**	**(7)**	**(31)**	**(44)**
Translation differences	**11**	**1**	**–**	**12**
Balance at December 31, 2017	**194**	**28**	**49**	**271**

(1) For additional information – Notes 20B2 and 20D regarding concessions and contingent liabilities.

Note 19 – Employee Benefits

A. Composition

	As at December 31	
	2017	2016
	$ millions	
Fair value of defined-benefit plan assets	**631**	552
Severance benefits	**(144)**	(149)
Liability recognized in respect of defined benefit plans	**(1,068)**	(934)
Net liabilities in respect of employee benefits	**(581)**	(531)

Composition of the fair value of benefit-plan assets:

	As at December 31	
	2017	2016
	$ millions	
Equity instruments		
Equity instruments with a quoted market price	**197**	205
Debt instruments		
Debt instruments with a quoted market price	**179**	133
Debt instruments with no quoted market price	**145**	126
	324	259
Deposits in insurance companies	**110**	88
	631	552

Note 19 – Employee Benefits (Cont.)

B. Severance pay

<u>Companies in Israel</u>

Pursuant to the severance pay laws and the existing employment agreements, the Group companies in Israel are obligated to pay severance benefits to employees who are dismissed or who leave their positions under certain circumstances. The severance benefits are computed based on the length of their service and, generally, based on their latest salary at the rate of one salary for every year worked.

The liabilities relating to employee severance pay rights are covered as follows:

1. Pursuant to the collective bargaining agreements, the Group of ICL companies in Israel make current deposits in outside pension plans with respect to part of their employees. In general, these plans provide full coverage for retirement benefits.

   The liabilities for severance pay covered by these plans are not presented in the financial statements, since all of the risks involved with payment of the benefits, as described above, have been transferred to the pension funds.

2. The Group of ICL companies in Israel make current deposits in Managers' Insurance policies, with respect to employees holding management positions. These policies cover the liabilities relating to the severance benefits due to those employees. Based on the employment agreements, subject to certain limitations, these insurance policies belong to the employees. The amounts deposited in respect of the policies, as stated, are not included in the statements of financial position since they are not under the management and control of the companies.

3. With respect to the balance of the liabilities not covered based on that described above, a provision based on an actuarial calculation has been recorded in the financial statements.

<u>Certain subsidiaries outside of Israel</u>

In countries wherein subsidiaries of ICL operate and wherein there is no legal obligation to make severance payments, ICL's Group companies did not include a provision in the financial statements for possible future payment of severance benefits, except in cases of a discontinuation of operations in part of the plant and the consequent dismissal of employees.

C. Pension and early retirement

1. Some of the ICL's employees in and outside of Israel (some of whom have already left the Group) have defined benefit pension plans for their retirement, which are controlled by ICL. Generally, according to the terms of the plans, as stated, the employees are entitled to receive pension payments based on, among other things, their number of years of service (in certain cases up to 70% of their last base salary) or computed, in certain cases, based on a fixed salary. Some employees of a subsidiary in Israel are entitled to early retirement if they meet certain conditions, including age and seniority at the time of retirement.

Note 19 – Employee Benefits (Cont.)

C. Pension and early retirement (Cont.)

1. (Cont.)

   In addition, some ICL companies have entered into plans with funds – and with a pension fund for some of the employees – under which such companies make current deposits with that fund which releases them from their liability for making a pension payment under the labor agreements to all of their employees upon reaching a retirement age. The amounts funded are not reflected in the financial statements since they are not under the control and management of the ICL Group companies.

2. During 2017, ICL signed a five-year collective labor agreement with the Workers' Union of Rotem Amfert Israel, which includes a plan for early retirement of 30 employees. As a result, in the financial statements for 2017 ICL increased the provision of termination benefits for employees, in the amount of about $15 million, against the "other expenses" category in the consolidated statement of income.

3. In September 2017, as part of an agreement of understandings for extension of the labor agreement between ICL's subsidiary Bromine Compounds Ltd. (hereinafter – "Bromine Compounds") and the Workers' Council, Bromine Compounds undertook to pay the employees a one-time payment of about $9 million (to be paid in installments), in exchange for a commitment by the Workers' Council for full and unequivocal "industrial peace" until September 30, 2019. In case of violation of the agreement, the payments not yet made will be cancelled. As a result, in the financial statements for 2017, ICL recorded a provision, in the amount of about $6 million against the "administrative and general expenses" category in the consolidated statement of income. The balance of the provision will be recognized throughout the period of the agreement, subject to fulfillment of all the required conditions.

4. Subsequent to the date of the report, in January 2018, a plan was approved for reduction of the number of ICL's employees in CPL (a subsidiary of ICL located in the United Kingdom), as the result of which ICL expects an increase of $9 million in the provision for employee benefits, which will be recorded in the financial statements for 2018.

D. Post-employment retirement benefits

Some of the retirees of ICL Group companies receive, aside from the pension payments from a pension fund, benefits that are primarily holiday gifts and weekend trips. The companies' liability for these costs accrues during the employment period. The Group companies include in their financial statements the projected costs in the post-employment period according to an actuarial calculation.

Note 19 – Employee Benefits (Cont.)

E. Movement in assets (liabilities), net in respect of defined benefit plans and their components

	Fair value of defined benefit plan assets		Liability in respect of defined benefit plans		Liability in respect of defined benefit plans, net	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
	$ millions					
Balance as at January 1	**552**	669	**(934)**	(1,025)	**(382)**	(356)
Income (expense) recorded in the statement of income						
Current service costs	**–**	–	**(24)**	(11)	**(24)**	(11)
Interest income (expenses)	**17**	13	**(29)**	(33)	**(12)**	(20)
Past service costs	**–**	(70)	**–**	84	**–**	14
Changes in respect of exchange rate differences, net	**23**	3	**(39)**	(5)	**(16)**	(2)
Recognized in other comprehensive income						
Actuarial losses deriving from changes in pension assumptions	**–**	–	**(42)**	(82)	**(42)**	(82)
Other actuarial gains	**25**	34	**–**	–	**25**	34
Changes in respect of translation differences, net	**36**	(56)	**(65)**	70	**(29)**	15
Additional movements						
Benefits paid	**(36)**	(54)	**64**	68	**28**	14
Assets designated for sale	**–**	–	**1**	–	**1**	–
Employer deposits	**13**	12	**–**	–	**13**	12
Employee deposits	**1**	1	**–**	–	**1**	–
Balance as at December 31	**631**	552	**(1,068)**	(934)	**(437)**	(382)

The actual return (loss) on plan assets in the year 2017 is $42 million compare with 47 million in the year 2016 and ($-1) million in the year 2015.

F. Actuarial assumptions

Main actuarial assumptions as at the date of the report (based on weighted average):

	For the year ended December 31		
	2017	**2016**	**2015**
	%		
Discount rate as at December 31	**2.6**	2.9	3.3
Rate of future wage increases	**2.9**	2.6	2.9
Rate of increase in pension annuity	**2.2**	2.2	2.2

The assumptions regarding the future mortality rates are based on published statistical data and accepted mortality tables.

Note 19 – Employee Benefits (Cont.)

G. Sensitivity analysis

Possible changes that are reasonable as at the date of the financial statements, assuming the other assumptions remain unchanged, impact the defined benefit liability as follows:

	As at December 31, 2017			
	Decrease of 10%	**Decrease of 5%**	**Increase of 5%**	**Increase of 10%**
Significant actuarial assumptions				
Wage increases	**24**	**12**	**(13)**	**(25)**
Discount rate	**(37)**	**(18)**	**19**	**37**
Mortality tables	**(22)**	**(11)**	**10**	**21**

H. Impact of the plans and the Group's future cash flows

The amount recognized as an expense in respect of a defined contribution plan in 2017 is about $40 million (2016 and 2015 – expenses were recognized in the amounts of about $32 million and about $23 million, respectively).

ICL's estimate of the contributions expected in 2018 in the funded defined benefit plans is about $12 million.

As at December 31, 2017, the Group's estimate of the life of the defined benefit plans (based on a weighted average) at the end of the period of the report is about 16.3 years (2016 – about 15.3 years).

Note 20 – Contingent Liabilities, Commitments and Concessions

A. Guarantees

ICL

As at December 31, 2017, the total guarantees of ICL was about $77 million.

B. Claims

1. The Corporation

a. 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.

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

1. The Corporation (Cont.)

b. 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 is 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 December 18, 2017 was cancelled, and in its place a hearing was scheduled for June 25, 2018 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.

c. 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. 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.

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

1. The Corporation (Cont.)

c. (Cont.)

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.

d. 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"). 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").

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

1. The Corporation (Cont.)

d. (Cont.)

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 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

1. The Corporation (Cont.)

e. 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.

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

1. The Corporation (Cont.)

e. (Cont.)

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.

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.

f. 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.

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

1. The Corporation (Cont.)

f. (Cont.)

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. 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.

g. Subsequent to the date of the report, 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 subsequent to the date of the report, on January 21, 2018.

<u>Contentions of the requesting party with respect to the Energean Transaction</u>

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.

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

1. The Corporation (Cont.)

g. (Cont.)

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. 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:

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

1. The Corporation (Cont.)

g. (Cont.)

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.

<u>Contentions of the requesting party with respect to the Tamar Transaction</u>

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.

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

1. The Corporation (Cont.)

g. (Cont.)

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

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").

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 proceeding, it is difficult to estimate the chances of the proceeding and the risks thereof. Time (and the judges) will tell.

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

1. The Corporation (Cont.)

H. 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". 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 …".

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

1. The Corporation (Cont.)

h. (Cont.)

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. As at the present time, the responses to the Request for Certification have not yet been filed, and we have not yet been able to gather all the materials required for complete examination of the defense possibilities available to the Corporation. Nevertheless, 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.

2. ICL

a. <u>Ecology</u>

(1) In June 2015, a request was filed for certification of a claim as a class action, in the District Court in Tel-Aviv–Jaffa, against eleven defendants, including a subsidiary of ICL, Fertilizers and Chemical Ltd., in respect of claims relating to air pollution in Haifa Bay and for the harm allegedly caused from it to the residents of the Haifa Bay area. The amount of the claim is approximately $3.8 billion. A preliminary hearing was scheduled for September 16, 2018. In ICL's estimation, based on the factual material provided to it and the relevant court decision, the chances that the plaintiffs' contentions will be rejected are more likely than they will be accepted.

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

2. ICL (Cont.)

a. Ecology (Cont.)

(2) On June 30, 2017, there was a partial collapse of the dyke in Pond 3, which is used for accumulation of phosphogypsum water that is created as a by-product of the production processes in Rotem plants. ICL immediately ceased its use of the active phosphogypsum ponds. In July 2017, in light of temporary approval to activate Pond 4 received from the Ministry of Environmental Protection, ICL returned to production at full capacity. The Ministry of Environmental Protection instructed ICL to submit a plan relating to the future operation of the phosphogypsum water ponds and ICL is in the midst of discussions with the Ministry's representatives regarding the plan, as stated, on the basis of which the permanent permit will be received for operation of Pond 4. In December, 2017, a building permit was received from the Tamar Local Planning and Building Committee (hereinafter – the Local Committee), for construction, raising the dyke and use of Pond 4. On January 7, 2018, a permit was granted for excavation work and repair of the infrastructure in Pond 5. As at the date of this report, ICL is taking action to obtain the required permits for Pond 5, the operation of which is expected to commence in May 2018. Obtaining the required permits could result in material future investments.

The Ministry of Environmental Protection, the Nature and Natural Parks Authority and the Tamar Regional Council have begun investigating the event. ICL is taking action to explore solutions for, inter-alia, restoration of the ponds in the short-term and long-term and rectification of any environmental impacts caused, to the extent required. ICL's actions are being carried out in full coordination and close cooperation with the Israeli environmental authorities, including the Ministry of Environmental Protection and the Nature and National Parks Authority. ICL is committed to the matter of environmental protection, and for years has worked closely with the Israeli environmental protection authorities to maintain the Negev's natural reserves in the area of its facilities.

In light of the preliminary stages of the process of estimating the costs relating to restoration of the stream and taking into account the complexity of the process and the uncertainty regarding the final restoration plans to be determined by the relevant authorities, ICL is unable at this stage to estimate the expected costs of the restoration work, as stated. Nevertheless, ICL recorded a provision, in an immaterial amount, which reflects the expenses that are incurred and expected to be incurred in the short term. ICL is in contact with its insurance carriers with reference to the relevant insurance policies regarding the matters described above.

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

2. ICL (Cont.)

a. Ecology (Cont.)

(2) (Cont.)

On January 9, 2018, an appeal was filed by Adam Teva V'Din – Israeli Association for Environmental Protection (hereinafter – "ATD") to the District Planning and Building Appeals Committee of the Southern District (hereinafter – "the Appeals Committee") against the Local Council and Rotem, in connection with the decision of the Local Committee, dated December 3, 2017, to deny ATD's objection to approval of the leniency and issuance of a building permit for Pond 4. In the framework of the appeal, ATD argued that flaws occurred in the procedures of granting the permit or in the discretion of the Local Committee, which approved the leniency and granted the permit, as stated. In ICLs estimation, the likelihood that the appeal will be accepted, in whole or in part, in such a manner that will result in discontinuance of the validity of the building permit are lower than the chances it will be rejected. It is noted that the decision of the Appeals Committee could have an impact on the process of obtaining the permits for Pond 5, as stated above. On February 5, 2018, ICL filed a request with the Appeals Committee for dismissal and rejection of the appeal.

(3) In July and August 2017, three applications for certification of claims as class actions were filed against ICL, as a result of a partial collapse of the dyke in the evaporation pond of Rotem Amfert Israel, which caused contamination of the Ashalim Stream and its surrounding area. The claimants contend that ICL breached various provisions of the environmental laws, including, the provisions of the Law for Prevention of Environmental Hazards, the Water Law as well as provisions of the Torts Ordinance, breach of a statutory duty and negligence. In the framework of the first application, the Court is requested to instruct ICL to rectify the harm caused as a result of its omissions in order to prevent recurrence of the damage caused as well as to grant a monetary remedy for non-pecuniary damages. The monetary remedy was not defined, however, according to the claimants, the amount of the personal claim is NIS 1,000 ($283) for each resident of the State of Israel, which totals approximately 8.68 million persons. In the framework of the second application, the Court is requested to grant a monetary remedy in an amount of no less than NIS 250 million ($71 million), and concurrently to award personal compensation in the amount of NIS 2,000 ($567) for each resident of the State of Israel, this being in respect of non-pecuniary damages. Furthermore, the Court was requested to instruct ICL to comply with the relevant laws and the rules provided thereunder.

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

2. ICL (Cont.)

a. Ecology (Cont.)

(3) (Cont.)

As part of the third application, the Court was requested to instruct ICL, among other things, to prepare plans for removal of the pollution, restoration of the Ashalim Stream and its surrounding area, for control and prevention of recurrence of the damage caused, to pay monetary relief to the class of injured parties, in the amount of NIS 202.5 million ($55.9 million), and to provide compensation by means of restoring the natural values impaired and returning the area to its former condition. In light of the very early stage of the proceeding and the limited number of similar court cases, it is difficult, at this stage, to predict the outcome of these claims.

b. Increase in level of Pond 5

The minerals from the Dead Sea are extracted by way of solar evaporation, whereby salt precipitates onto the bed of one of the evaporation ponds at Sodom, in one of the sites of Dead Sea Works (hereinafter – "DSW"). The precipitated salt creates a layer on the Pond bed of approximately 20 million tons annually. The process of production of the raw material requires that a fixed brine volume is preserved in the Pond. To this end, the water level of the Pond is raised each year according to the rate at which the pool floor rises.

The Ein Boqeq and Hamei Zohar hotels, the town of Neve Zohar and other facilities and infrastructures are located on the western beach of the Pond. Raising the water level of the Pond above a certain level is likely to cause structural damage to the foundations and the hotel buildings situated close to the water's edge, to the settlement of Neve Zohar and to other infrastructures located along the western shoreline of the Pond. This situation requires establishment of defenses for the facilities and infrastructures of the hotels located on the shores of the Pond.

The project for construction of the temporary defenses has been underway for several years. As part of such defenses, from time to time, the dyke along the western beachfront of the Pond, across from the hotels, is raised, together with, in many places, a system for lowering subterranean water. As at the date of the report, there is agreement between DSW and the Government of Israel that ICL will bear 39.5% of the costs of financing the temporary defenses and the Government will finance the balance thereof.

The interim defenses have not yet been fully completed, however the dykes have been raised to a level that permits raising of the water level up to a height of 15.1 meters.

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

2. ICL (Cont.)

b. Increase in level of Pond 5 (Cont.)

In July 2012, an agreement was signed with the Government of Israel, regarding "Execution and Funding of the Dead Sea Protection Project and Increase of the Royalties Paid to the State" (hereinafter – "the Salt Harvesting Project"). The purpose of the Salt Harvesting Project is to provide a solution for the raising of the water level in the Pond and stabilizing of the water therein at a fixed level by harvesting of the salt from this pond and transferring it to the Northern Basin of the Dead Sea.

The highlights of the agreement are set forth below:

(1) The planning and execution of the Salt Harvesting Project will be performed by DSW.

(2) The Salt Harvesting Project as well as the project for the new pumping station that is to be constructed (hereinafter – "the P-9 Pumping Station"), constitute an Israeli national infrastructure project that will be promoted by the Israeli Committee for National Infrastructures.

(3) Starting from January 1, 2017, the water level in Pond 5 will not rise above 15.1 meters in DSW's network (about 390 meters below sea level). DSW will be required to pay compensation in respect of any damages caused as a result of a rise of the water level beyond the level determined. If there is a material deviation from the timetables for construction of the Salt Harvesting Project as a result of a requirement for changes by the planning institutions, as a result of which the Plan is not approved on time, or due a decision of a judicial tribunal that caused a delay of at least one year in provision of effect to the Salt Harvesting Project by the planning institutions, without ICL having violated its obligations, ICL will be permitted to request raising of the water level above that stated above.

In December 2015, National Infrastructures Plan 35A (hereinafter – "the Plan"), was approved by the National Infrastructures Committee, which includes the statutory infrastructure for establishment of the Salt Harvesting Project in Pond 5, and construction of the P-9 pumping station in the northern basin of the Dead Sea. In March 2016, the Government also approved the Plan. In the second half of 2017, DSW signed agreements, in the amount of about $115 million, for construction of the P-9 pumping station, with a number of execution and infrastructure companies. The P-9 pumping station is expected to commence its operations during 2020. The building permits have been received and the construction work has commenced – both in connection with the Salt Harvesting Project and regarding the P-9 Pumping Station.

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

2. ICL (Cont.)

b. Increase in level of Pond 5 (Cont.)

(4) Increase in the rate of the royalties from 5% to 10% of sales, for quantities of chloride potash DSW sells in excess of 1.5 million tons annually. This increase applies to sales starting January 1, 2012. In July 2012, as part of the agreement, the Government committed that at this time it sees no need to make additional changes to its specific fiscal policy regarding mining from the quarries at the Dead Sea, including the commercial utilization thereof and, accordingly, at this time, it will not initiate and will even object to, as applicable, proposed laws regarding this matter. ICL’s consent to the increase of the rate of the royalties is contingent on implementation of the Government of Israel’s decision. The agreement further provides that if legislation is enacted that changes the specific fiscal policy in connection with profits or royalties deriving from mining of quarries from the Dead Sea, ICL’s consent will not apply regarding increase in the rate of royalties on the surplus quantities referred to above, commencing from the date on which additional tax is collected as pursuant to the said legislation.

In November 2015, the Economic Efficiency Law was published, including implementation of the Sheshinski Committee’s recommendations, which address royalties and taxation of excess profits from Dead Sea minerals. The law entered into effect on January 1, 2016.

ICL will bear 80% and the Government will bear 20% of the cost of the Salt Harvesting Project, however the Government's share will not exceed NIS 1.4 billion.

In October 2017, DSW signed an agreement, the cost of which for ICL is $280 million, for execution of the first stage of the Salt Harvesting Project, with a contracting company Holland Shallow Seas Dredging Ltd., to commence construction of a special dredger that is designed to execute the salt harvesting. The dredger is expected to enter into service in the first half of 2019.

c. Spain

(1) The subsidiary in Spain (hereinafter – “ICL Iberia”) has two potash production centers – Suria and Sallent. As part of the efficiency plan, ICL intends to consolidate the activities of ICL Iberia into one site by means of expanding the Suria production site and discontinuing the mining activities on the Sallent site. The mining activities in Spain require an environmental mining license and an urban license.

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

2. ICL (Cont.)

c. Spain (Cont.)

(1) (Cont.)

Environmental mining license for the Sallent site – in 2013, the Spanish Regional Court issued a judgment invalidating ICL Iberia’s environmental mining license, contending that there were flaws in provision of the license by the Government of Catalonia including no environmental impact assessment of the Cogulló salt deposit (hereinafter – the “Salt Pile”). In September 2015, the Spanish Supreme Court affirmed this judgment. Following ICL’s request and as part of its efforts to obtain the environmental mining license, on August 28, 2017, the Mining Authorities issued a new environmental mining license, which includes a new environmental impact assessment approved by the Environmental Authorities. The environmental mining license replaces definitively the license previously invalidated and according to which ICL is allowed to continue its activity.

Urban license for the Sallent site – in 2014, the District Court of Barcelona determined that the urban license was not valid. In January 2017, the Regional Court affirmed this judgment. An appeal process is currently being conducted before the Supreme Court. Following the resolution, the municipality of Sallent initiated a protection case relating urban planning legality and ICL was required to legalize its salt pile activity by obtaining the urban license. ICL is working to attain the urban license and believes that it will be obtained in the first half of 2018.

In November 2013, the Regional Court determined that the current urban parameters stated by the Sallent Municipality, relating to the Salt Deposit were not fulfilled. As part of enforcement of the judgement, the local planning board of the Catalonian government (CUCC) determined new provisions, which became effective upon the Regional Court's approval in November 2015, including, limitation over the height of the salt pile and a temporary extension of the salt piling activities, up to the earlier of June 30, 2017 or when the salt pile reaches a height of about 538 meters. As at the date of the report, the height of the salt pile is 514 meters. On June 30, 2017, the Regional Court determined that the permit to pile up the salt in Sallent, which includes certain conditions, will be extended by one year, up to June 30, 2018. In addition, the Court determined that before March 31, 2018, ICL will be entitled to request an extension for an additional year. With respect to the extension for the second year, the Court determined that the competent authorities are permitted to provide conditions for granting the extension.

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

2. ICL (Cont.)

c. Spain (Cont.)

(1) (Cont.)

In light of the said restrictions, continuation of the production activities on the Sallent site is contingent on finding a solution for treating the salt pile and the salt produced as part of the ongoing potash production process. ICL Iberia is working with the Government of Catalonia to find a solution to fulfill its obligation to remove the salt pile, which will be presented as part of the restoration plan (see below).

Suria site – In April 2014, after a favorable survey was received from the Environmental Protection Authority in Catalonia, ICL Iberia received an environmental license that complies with the new environmental protection regulations in Spain (autoritzacio substantive), this being after ICL Iberia received the urban license.

Restoration plan – In 2015, in accordance with the provisions of the Spanish Waste Management regulation, ICL Iberia submitted to the Government of Catalonia a mining site restoration plan for the two production sites Suria and Sallent, which includes a plan for handling the salt piles and dismantling of facilities. The restoration plan for the Suria site is scheduled to run up to 2094, whereas for the Sallent site up to 2070. In 2016, following discussions with the authorities relating the plan for treating the salt pile on the Sallent site, it was found that a number of changes in the plan are required with respect to the water pumping process, which constitutes part of the removal plan. As a result, based on the estimate of the projected costs, ICL recognized a provision in its financial statements for 2016, in the amount of $40 million. It is noted that the said provision is based on a long-term forecast, covering a period of more than 50 years, along with observed estimates and, accordingly, the final amount that will be required to treat the salt could change, even significantly, from the amount of the present provision. As at the date of this report, in ICL's estimation the provision in its books reflects the best estimate of the expense required to settle this obligation.

(2) In early 2016, following complaints from competitors in the salt market in Spain, the European Commission announced that it will investigate whether ICL Iberia received illegal aid from the Spanish authorities regarding two issues:

(a) Whether the guarantee amounts relating to environmental protection, which are supposed to cover the potential cost of rehabilitation of the land, originally set at $2 million, are lower than the amount required by the EU and the national and regional environmental rules; and

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

2. ICL (Cont.)

c. Spain (Cont.)

(2) (Cont.)

(b) Whether ICL Iberia should bear the cost of the environmental protection measures, in the amount of about $9 million, which was financed by the Spanish authorities.

On September 1, 2017, the European Commission determined that ICL Iberia is required to repay the amount of about $8 million (including interest), which was granted in the past by the authorities in Spain in respect of subsidies for the Environmental Restoration Programs. In addition, the European Commission recommended to increase ICL's guarantees amounts relating to the environmental protection plan. Following recent developments relating the new restoration plan, the Spanish authorities increased ICL's guarantees to $16 million. In light of that stated, in the financial statements for 2017, ICL recorded a provision in the amount of $8 million.

(3) Further to the court decision received in 2016 providing that ICL Iberia bears sole responsibility for contamination of the water in certain wells on the Suria site (due to an over concentration of salt), in January 2018 claims were received from the owners of the land surrounding the wells, whereby ICL Iberia is required to compensate them for their damages, in the aggregate amount of $22 million. In light of the preliminary stage of the proceedings, the complexity of the claim processes and the large number of plaintiffs, it is difficult to estimate of outcome of the proceedings. Nonetheless, in Management's estimation, the amount with respect to which it is more likely than not that will be paid to the owners of the land is $12 million and, therefore, a provision in this amount has been included in the financial statements for 2017 presented under "other expenses" in the consolidated statement of income.

d. In the beginning of 2017, a settlement agreement was approved to end a class certification request in respect of a claim as a class action by a group of farmers that acquired, in the past and presently, potash produced by Dead Sea Works Israel for fertilization purposes. The period covered by the claim is from January 1, 2007 and up to January 2017.

The highlights of the agreement are set forth below:

(1) The group of plaintiffs was defined as all the direct consumers, indirect consumers, farmers and end-users who acquired potash or a product in which potash is a component. It is clarified that Haifa Chemicals Ltd. and any party that acquired from it potash or its products in the downward supply chain are not included in the arrangement.

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

2. ICL (Cont.)

d. (Cont.)

(2) Compensation for past damages – DSW will pay the group of plaintiffs the amount of $5.5 million as compensation in respect of the period covered by the claim.

(3) Future arrangement – commencing from the date on which the court decision approving the settlement agreement becomes final, and up to the passage of 7 years therefrom, the price of the potash at the factory gate of DSW, without shipping and other expenses, shall not exceed the lower of: (a) $400 per ton of potash, or (b) the average of the three cheapest prices at which DSW sold potash to its customers outside of Israel in the quarter preceding the sale in Israel, after such price is adjusted to the factory gate ("the Controlled Price"). The Controlled Price will apply to a base quantity of 20,000 tons of potash per year, while beyond this quantity DSW will have no restriction with respect to the price. It was further agreed that in connection with granulated potash, DSW will be entitled to charge up to an additional $20 per ton of potash in excess of the Controlled Price. With reference to packaged potash, DSW will be entitled to charge the Controlled Price plus the average price charged to its foreign customers for packaging potash.

e. In 2015, the Israeli Public Utilities Authority – Electricity (hereinafter – "the Electricity Authority") resolved to impose certain electricity system management services charges also on private electricity producers as opposed to only on private consumers, this being applied retroactively from June 2013. In light of this, in December 2015, Dead Sea Works and Rotem received charges, in the amount of about $35 million, for the period from June 2013 through 2015. In August 2016, the Electricity Authority published a revision to its decision that gave rise to a reduction of the charges to ICL for the electricity system management services relating to prior periods in the amount of $16 million.

ICL, DSW and Rotem filed a petition against the decision of the Electricity Authority contending that the decision suffers from significant flaws. In January 2017, the Supreme Court sitting as the High Court of Justice issued a conditional order against the State of Israel with reference to the "retroactive" charges. In July 2017, the Electricity Authority filed a response affidavit following which the High Court of Justice instructed the parties to carry on negotiations aimed at reaching a settlement agreement. Subsequent to the date of the report, on January 3, 2018, a settlement agreement was signed between the parties whereby ICL will not be charged retroactively in respect of 2013, while in respect of 2014 it will be charged at a partial rate. As a result, ICL further reduced its provisions, in the amount of $6 million, presented under "other income" in the consolidated statement of income.

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

2. ICL (Cont.)

f. In 2015, an appeal was filed in the Israeli Court for Water Matters by Adam Teva V'Din – Israeli Association for Environmental Protection (ATD) wherein the Court was requested to order the Government Water and Sewage Authority to issue a production license to DSW pursuant to the Water Law with respect to the transfer of water from the North Basin of the Dead Sea to the evaporation ponds in the Sea's South Basin in order to regulate and supervise, within the framework of the production license, transfer of the water, as stated, in connection with certain aspects, including limitation of the quantities transferred. In August 2016, the Government Water and Sewage Authority issued directives to DSW (not in the framework of the production license), after hearing the latter's position, which included limitations on the quantities of water transferred, as well as mechanisms for reporting of pumping volume. On January 21, 2018, ICL submitted a statement of defense on its behalf in which it disagrees with ATD's arguments. In ICL's estimation, the legal proceedings in this matter will end without material influence on its operations.

g. On September 5, 2017, a decision of the District Court in Beer Sheva was received regarding a dispute between the National Company for Roads in Israel and DSW regarding damage caused to bridges as a result of leakage of chemical materials from DSW's trucks during a shipment to the Eilat port, whereby ICL is to participate in restoration of the bridges and bear responsibility for the damage, amounting to a payment of $6 million. Consequently, ICL recorded a provision equal to the above amount, which was presented under "other expenses" in the consolidated statement of income. On October 26, 2017, DSW filed an appeal in the Supreme Court of the District Court's decision, and on November 28, 2017, the National Company for Roads in Israel filed a counter appeal.

h. During March 2017, a claim was filed by Great Lakes Chemicals, a subsidiary of Chemtura Corporation (hereinafter – Great Lakes), against Dead Sea Bromine Company Ltd. (hereinafter – DSB), in the U.S. District Court for the Southern District of New York, in the United States. As part of the claim, Great Lakes claimed an alleged breach of an agreement covering supply and sale of bromine and downstream bromine products from 2003. In February 2018, the parties signed a settlement agreement concluding the legal dispute between them. The arrangements provided in the settlement agreement, as stated, are in immaterial amounts.

i. Subsequent to the date of the report, on March 11, 2018, a subsidiary of ICL, Periclase Dead Sea Ltd. (in voluntary liquidation), was served with an application for certification of a class action against it and another ICL subsidiary, Rotem Amfert Negev Ltd. ("Rotem") (the two companies, jointly – "the Respondents"), filed in the District Court in Be'er Sheva by several plaintiffs, on behalf of two represented classes: the first class constituting of the entire public in the State of Israel, and the second constituting visitors of Bokek stream and the Dead Sea, who were exposed to and came into contact with the Bokek stream (the "Applicants").

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

2. ICL (Cont.)

i. (Cont.)

According to the Applicants, the Respondents have allegedly caused continuous, severe and extreme environmental hazards through pollution of the "Judea group – Zafit formation" groundwater aquifer (the "Aquifer") and the Ein Bokek spring with industrial wastewater, and in so doing the Respondents have violated various provisions of property law, land 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. Within the application the Court was requested to order the Respondents to eliminate the proprietary violation in reference to the Aquifer and Bokek stream by restoration thereof in a manner to be determined and which was not specified in the application, and therefore the financial implications of such requested relief are unknown. Furthermore, the Court was requested to order the Respondents to pay to the public restitution and compensation in an estimated amount of NIS 1.4 billion (about $411.7 million). ICL is reviewing the application and considering its legal steps.

J. In addition to the contingent liabilities, as stated above, as at the date of the report, the contingent liabilities regarding the matter of environmental protection and legal claims, which are pending against ICL, are in immaterial amounts. It is noted that part of the above claims is covered by insurance. In ICL's estimation, the provisions recognized in its financial statements are sufficient.

3. ORL

a. The Ministry of Environmental Protection gave notice to Carmel Olefins of its intention to impose financial sanctions on it, in the amount of NIS 2.7 million, for alleged violations of the emission permit in three technical issues. Carmel Olefins filed its arguments against the sanctions. In the period of the report, Carmel Olefins received notice that the Ministry had decided to reduce the amount of the financial sanction that it had considered and to place it at NIS 2.2 million. In the period of the report, Carmel Olefins paid the amount of the financial sanction. At the same time, the Ministry is continuing the investigation of the events underlying the financial sanction. ORL is unable to estimate the results of the investigation.

b. ORL, Carmel Olefins and Gadiv (hereinafter – "the Companies") received various warnings from the Ministry of Environmental Protection for alleged violations of the emission permits and personal orders issued to them relating to air quality, including claims of non-compliance with maximum emission values, failure to perform various action, and failure to comply with procedures of the Ministry of Environmental Protection. The Companies submit their responses to the Ministry in connection with any warning received, as relevant. At this stage, the Companies are unable to estimate the exposure for the warnings, if any.

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

3. ORL (Cont.)

c. The Ministry of Environmental Protection is investigating a number of issues against ORL, Carmel Olefins and Gadiv (hereinafter – "the Companies"), and in some of the investigations, also against managers who served at the dates relevant to the investigation of the Companies, including in relation to the fire in a storage tank for interim materials in ORL's compound and alleged violations of the personal orders and emission permits issued to the Companies at the dates on which they were valid and/or due to malfunctions in their facilities. At this stage, the Companies are unable to estimate the exposure for these investigations, if any.

d. In December 2017, a request was filed for certification of a claim as a derivative claim by a shareholder (Hahami) in the name of ORL against OPC, Israel Corporation and directors who served in ORL in 2011 when the transaction was approved, on the grounds that the transaction for the purchase of electricity from OPC was not approved as required and it is not on market conditions. ORL believes, based on the opinion of its legal counsel representing it in this case, that at this early stage it is not possible to estimate the chances of the motion for certification, but in any event, ORL will not be required to pay any amounts claimed in the request.

e. Subsequent to the date of the report, in January 2018, a request was filed for certification of a claim as a derivative claim by a shareholder (KRNA) in the name of ORL against OPC, Israel Corporation, its controlling shareholders, and directors who served in ORL in 2012 when the transaction with Tamar was approved or who are currently serving in ORL, in the matter of transactions for the purchase of natural gas from Tamar and from Energean, claiming that the transaction with Tamar was not approved as required and that both transactions are not in ORL's favor and are not on market conditions. ORL believes, based on the opinion of its legal counsel representing it in this case, that at this early stage it is not possible to estimate the chances of the motion for certification, but in any event, ORL will not be required to pay any amounts claimed in the request.

f. In 2012, a claim was filed by Haifa Municipality against ORL and subsidiaries demanding payment of development levies (paving roads and channeling), which the companies claim they do not owe. In addition, there is a demand for payment of interest and linkage differentials under the Local Authorities Law. The amount of the claim is about NIS 230 million, as at the date for the demand for the levies (2012). In addition, there is a demand for about NIS 135 million of interest and linkage differentials (as at the date of issuing the interest charge and linkage differentials in December 2017). In 2014, the Administrative Court handed down a judgment that cancels these charges. The Municipality appealed the judgment, and in the period of the report the Supreme Court handed down a judgment which determined that the charges were lawfully issued.

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

3. ORL (Cont.)

f. (Cont.)

ORL filed a request for another hearing on the Supreme Court’s judgment. In addition, subsequent to the period of the report, ORL filed a petition regarding the scope of the interest for the development levies and the party to which the amount to be paid will be transferred. As part of the petition, subsequent to the reporting date, an amount of NIS 251 million was placed in a deposit that cannot be used until a judgment on the petition has been handed down. In this petition, the parties agreed to a mediation process. In accordance with the judgment, ORL adjusted the amounts of the provisions for the principal of the levies against fixed assets and the provisions for interest against financing expenses, all in accordance with ORL’s assessment, based on the opinion of its legal counsel in this matter, in a manner that is an appropriate reflection of the costs that will be paid, with a probability of more than 50%.

g. A claim and a request for its certification as a class action was filed against by ORL in connection with the fire that broke out in the intermediate materials storage tank on the Company's premises According to the claim and motion for certification, the cause of action is a contention of an environmental hazard and negligence, breach of statutory duty and violation of autonomy. ORL submitted an appropriate notice on the claim to its insurers, and has filed its response to the claim. In the reporting period, court documents were submitted, in which the plaintiff claimed, among other things, various damages in the amount of the damages claimed in its original application, bringing the damage claimed to about NIS 280 million, and attached a new expert opinion. ORL requested the removal of the plaintiff's response from the court file. The ruling on this matter has yet to be handed down. The amount of the claim is NIS 753 million as at the filing date (December 2016).

ORL believes, based on the opinions of its legal counsel representing it in this claim, that it has included an appropriate provision that reflects the costs for the claim that will be paid, with a probability of more than 50%. ORL submitted an appropriate notice about the claim to the insurers.

h. A shareholder filed a request for certification as a class action against ORL, its controlling shareholder, the former CEO of ORL and the CFO. The amount of the claim is about NIS 135 million (as at the filing date in 2014). The main allegation of the applicant is that ORL breached disclosure obligations in the way it presented supplier credit and the inventory availability transaction in its financial statements. ORL has submitted appropriate notices to the insurers. In 2016, the District Court dismissed the request for certification as a class action. The applicant filed an appeal against the judgment. In the period of the report, the Supreme Court dismissed the appeal.

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

3. ORL (Cont.)

i. In 2015, ORL, Carmel Olefins, Gadiv and eight other defendants were served with a claim and a request for its certification as a class action. In the claim it is alleged that air pollution was caused by the defendants in the Haifa Bay area, which resulted in a higher morbidity rate compared to the rest of the country, and caused a higher risk of sickness and other parts of the country; an increased risk of sickness and threat to free will. On the publication date of the report, the Court determined that the respondents are to file a request to amend the request for certification and the claimants are to respond to it. As at the filing date of the claim, the amount of the damages claimed is NIS 14.4 billion (as at the date the claim was filed). ORL believes, based on the opinion of its legal counsel representing it in this case, that at this preliminary stage it is difficult to assess the results of the proceeding. However, in view of the request, and the assessment of ORL and its legal counsel of the legal situation and the factual material received by them so far, it is more likely than not that the request for certification will be dismissed.

j. A claim is underway against ORL and its subsidiaries in the District Court, in connection with demands for payment of a levy for laying water pipes and a sewage imposition, which according to the companies on which the charges are being levied, they are not liable for such charges. In December 2017, a decision of the Appeals Board was rendered whereby the authority to impose the sewage imposition lies with the Municipality, and not with the Carmel Water Company. ORL has filed a request for leave to appeal this decision. The amount of the claim is about NIS 170 million, as at the date of the original claim (2010), for the sewage imposition and, in addition, about NIS 90 million, for the levy for laying water pipes, as at the date of the original claim (2014). With respect to the sewage imposition, there are overlapping demands of the Municipality and Carmel Water Company. In ORL's estimation, based on the evaluation of its legal advisors regarding this matter, ORL and its subsidiaries included provisions appropriately reflecting the costs in respect of the said demands that will be paid, with a probability of greater than 50%.

k. ORL and its subsidiaries are in the practice of including provisions in their financial statements for claims which their managements believe, based on the opinion of their legal counsel, are more likely than not to materialize. The provisions are based on the estimated amounts of payments required to settle the liabilities. The amount of the additional exposure, at the filing date of the claims (without interest and linkage differences), less participation of insurers, for which there is no provision amounts to $102 million (not including contingent liabilities for environmental matters, for which exposure cannot be estimated, and a class action of NIS 15.1 billion for air pollution and the fire as detailed in Note 20B3(g) and (i)).

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments

1. The Corporation

a. Indemnification and exemption – in March 2001, the General Meeting of the Corporation's shareholders approved granting and indemnification and exemption commitment to the Corporation's officers (including officers considered to be controlling shareholders) in addition to officers' insurance, which does not apply to cases stated in Section 263 of the Companies Law (hereinafter – "the Indemnification Certificate"). The exemption is from officers' liability in respect of damage caused and/or that will be caused by it to the Corporation due to breach of the duty of caution to the Corporation. From time to time and as part of the Corporation's customary service conditions, the Corporation's officers were granted indemnification certificates as stated. Among the said officers are those that are considered as controlling shareholders of the Corporation and/or those that are controlling interests that could be considered as having a personal interest in the granting of indemnification certificates to them. Further to the decision of the General Meeting of the Corporation's shareholders on March 21, 2001, regarding approval of granting Indemnification Certificates, on November 8, 2011, at the General Meeting of the Corporation's shareholders, where on the Day's Agenda of which was amendment of the provisions of the Corporation's Articles of Association dealing with insurance and indemnification of directors and officers of the Corporation, and as part of the customary service conditions, it was decided to approve an updated Indemnification Certificate to be granted to the Corporation's officers (including officers considered to be controlling shareholders and/or their relatives and/or officers where the Corporation's controlling shareholder is likely to be considered as having a personal interest in granting them an Indemnification Certificate), presently serving in the Corporation and as they will serve from time to time, and that will also apply, subject to law, with respect to actions taken prior to the grant date (this being in addition to and without detracting from the validity of the existing Indemnification Certificates to the Corporation's officers and the Corporation's commitments under the existing Indemnification Certificates).

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

1. The Corporation (Cont.)

b. On December 27, 2017, the General Meeting of the Corporation's shareholders approved the Corporation's undertaking in the insurance policies for the officers serving in the Corporation, and as they will serve from time to time, and acquisition of policies for insuring the officers or extension or renewal of policies that will be purchased in the future, as stated, from time to time, for a number of periods that will not exceed, cumulatively, three years from the end of period of the insurance policy, this being in accordance with and subject to the following terms: the policy will include two layers – one layer is joint with ICL and the other layer is separate. The officers in the Corporation Group are beneficiaries of both layers, as stated above. The share of the Corporation in the liability for payment of the insurance premium between ICL and Israel Corporation with respect to the joint layer will be up to 30%, this being based on the estimate of the insurers. The cost of the annual premium to be paid by the Corporation in the insurance period after the end of the current insurance period, with respect to the two layers together, will not exceed U.S.$500 thousand ("the Maximum Premium") but, rather, in accordance with that stated below: the Corporation's, self-participation (deductible) in respect of claims against officers will not exceed U.S.$1.2 million, pursuant to the claim's cause of action and place where it is filed. In addition, for a period of three years from the end of the period of the insurance policy, the Corporation, with the approval of the Corporation's Remuneration Committee and Board of Directors, may renew, extend or acquire, from time to time, additional insurance policies for additional insurance periods on the same for all the officers, where the said undertakings may be made with the same insurance company or with any other insurance company in or outside of Israel, provided the following conditions are fulfilled: in the insurance periods, the annual premium to be paid by the Corporation with respect to the insurance year may not exceed more than 25% for each year of the Maximum Premium for the preceding insurance period. A deviation from these limitations requires the approval of the General Meeting of the Corporation's shareholders; the Corporation will be permitted to approve changes, from to time, in connection with the rate of allocation of the premium between the Corporation and ICL with reference to the joint layer, provided that the rate of the change does not vary by more than 25% from the allocation described above between the Corporation and ICL; in a case of acquisition of new policies or extensions or renewals of the insurance policy or policies that will be acquired in the future, the amount of the Corporation's, self-participation (deductible) for every insurance period may not exceed 125% of the amount of the Corporation's, self-participation (deductible) for the prior insurance period; to the extent the Corporation's insurance policy is not renewed, the Corporation will be permitted to acquire the continued application (extension) of the policy for a total premium amount that does not exceed $1.5 million ("Run-Off"). In addition, at their meetings held on December 6, 2017 and December 7, 2017, the Corporation's Remuneration Committee and Board of Directors approved inclusion of the Corporation's CEO, and for cautionary purposes, inclusion of directors serving as officers of companies related to the Corporation's controlling shareholder, in the insurance policies for the Corporation's officers (including an undertaking in an insurance policy, as stated above, and the Corporation's undertakings to new the insurance policy, pursuant to Regulations 1A1 and 1B(5) of the Companies Regulations (Leniencies in Transactions with an Interested Party), 2000), this being subject to acquisition of the insurance policies for all the Corporation's officers.

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

2. ICL

a. Certain subsidiaries of ICL have commitments with suppliers, in and outside of Israel, for acquisition of raw materials in the regular course of business, for various periods ending on December 31, 2023. The total commitments for all the agreement periods amount to $530 million as at December 31, 2017.

b. Certain subsidiaries of ICL have commitments with suppliers to purchase property, plant and equipment. As at December 31, 2017, there are commitments to invest in property, plant and equipment about $260 million.

c. The Articles of Association of ICL and its Israeli subsidiaries include provisions that permit exemption, indemnification and insurance of the liability of officers, all in accordance with the provisions of the Israeli Companies Law.

ICL, with the approval of the Audit Committee, the Board of Directors and the General Meeting of the shareholders, granted its officers an exemption and letters of indemnification, and has also taken out an insurance policy covering directors and officers. The insurance and the indemnity do not apply to those cases specified in Section 263 of the Israeli Companies Law. The exemption is for damage caused and/or that will be caused by such officers, due to a breach of the duty of care to ICL. The amount of the indemnification payable by ICL under the letter of indemnification, in addition to amounts received from an insurance company, if any, for all of the officers on a cumulative basis, for one or more of the events detailed therein, was limited to $350 million. The insurance is renewed annually.

d. In 2012, ICL entered into agreements regarding a project to construct a new cogeneration power station (EPC) in Sodom, Israel (hereinafter – the Station). The Station will have a production capacity of about 330 tons of steam per hour and about 230 megawatt hours, which will supply electricity and steam requirements for the production plants at the Sodom site and for third party customers. ICL intends to operate the Station concurrently with the existing power station, which will be operated on a partial basis in a "hot back-up" format, for production of electricity and steam. The total electricity production in the short term will be about 245 MWH.

In 2015, the executing contractor (the Spanish Company – Abengoa) experienced financial difficulties. In October 2016, the Spanish court approved a debt arrangement between the executing contractor and its creditors which permits continuation of its activities in the power station project. In September 2017, ICL notified the executing contractor of cancellation of the construction agreement due to a series of violations of the agreement on its part. ICL plans to complete construction of the power station and to bring it to full operation during the first half of 2018.

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

2. ICL (Cont.)

e. Several Group companies in Israel have signed agreements for supply of natural gas to the Group's manufacturing facilities in Israel with the "Tamar" reservoir (hereinafter – Tamar). The total quantities under the currently existing agreements should provide the Group all its gas needs, including the quantities required to test and operate the power station located in Sodom, which commenced running on gas, on a partial basis, in the fourth quarter of 2017. Transition to full use of gas is expected to take place in the second quarter of 2018. In February 2018, ICL entered into two supply agreements with Tamar and "Leviathan" reservoir (hereinafter – the Agreements), to secure its gas supply needs until the end of 2025 or until the entry of the "Karish" and "Tanin" reservoirs into service– whichever occurs first. The gas price in the Agreements is in accordance with the gas price formulas stipulated under the government's gas outline.

ICL is entitled to terminate the Agreements as of 2020 in order to start the new agreement with Energean Israel Ltd. (hereinafter – "Energean"), as described below. In addition, the Agreements contain an extension option in the event Energean will fail to achieve commercial operation.

ICL anticipates that the scope of the annual gas consumption, after full operation of the power station will be about BCM 0.75.

On December 5, 2017, ICL signed an agreement with Energean for the supply of up to 13 BCM of natural gas over a period of 15 years, amounting to approximately $1.9 billion. Subsequent to the date of this report, ICL obtained all the approvals stipulated in the agreement, which were required for closing of the transaction. Energean holds licenses for development of the Karish and Tanin gas reservoirs, which are located in Israel's territorial waters. Supply of the natural gas is expected to commence, at the earliest, in the second half of 2020, depending on completion of the development and commencement of production of natural gas from the reservoirs, and will be used for running ICL's factories and power stations in Israel.

D. Concessions

1. Dead Sea Works Ltd.

Pursuant to the Israeli Dead Sea Concession Law, 1961 (hereinafter – the Concession Law), as amended in 1986, and the concession deed attached as an addendum to the Concession Law, DSW was granted a concession to utilize the resources of the Dead Sea and to lease the land required for its plants in Sodom for a period that is expected to end on March 31, 2030, accompanied by a priority right to receive the concession after its expiration, should the Government wish to offer a new concession to a third party.

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

D. Concessions (Cont.)

1. Dead Sea Works Ltd. (Cont.)

In 2015, the Minister of Finance appointed a team for determination of the "governmental activities to be conducted towards the end of the concession period". The public's comments regarding its positions and viewpoints in connection with the end of the concession were submitted to the team. The team was asked to submit its recommendations to the Minister of Finance by May 2016, however to the best of ICL's knowledge up to the date of the report the team had not yet submitted its recommendations. There is no certainty as to what the recommendations of this team will be regarding the procedures that the government will undertake in connection with the existing concession and as to the manner in which future mining rights will be granted.

The Minister of Finance appointed a team headed by the Accountant General to evaluate the manner in which, according to the current concession, the replacement value of DSW's tangible assets would be calculated assuming that these assets would be returned to the government at the end of the concession period. The determination date of the actual calculation is only in 2030. The abovementioned team was requested to submit its recommendations in this matter to the Minister of Finance by March 2015. In January 2017, the Accountant General sent a letter to the Chief Economist – the Supervisor of the State's revenues wherein she noted that the position of the Division of the Accountant General in the Ministry of Finance regarding the arrangement covering the assets was finalized (but was not published), however in light of the Accountant General changeover, the draft position report is being transferred to the incoming Accountant General for completion of the work. At this stage, there is no certainty regarding the recommendations of the Accountant General. In addition, there is no certainty as to how the Government would interpret the Concession Law, the manner in which this process and methodology would ultimately be implemented, and how the value of the tangible assets would be calculated.

In consideration of the concession DSW pays royalties to the Government of Israel, calculated at the rate of 5% of the value of the products at the factory gate, less certain expenses. Where the annual quantity of potash sold is in excess of 1.5 million tons, the royalties rate would be 10%, in terms of the Salt Harvesting Agreement (SLA) signed in July 2012. According to the SLA, if legislation is enacted that changes the specific fiscal policy in connection with profits or royalties deriving from the mining of quarries from the Dead Sea, ICL's consent would not apply in respect of the increase in the royalties' rate on the surplus quantities referred to above, which would commence from the date on which additional tax is collected as stated in the legislation. In November 2015, the Economic Efficiency Law was published, including implementation of the Sheshinski Committee's recommendations, which address royalties and taxation of excess profits from Dead Sea minerals. The law entered into effect on January 1, 2016.

DSW granted a sub-concession to Dead Sea Bromine Ltd. (hereinafter –the "Bromine Company") to produce bromine and its compounds from the Dead Sea, the expiration date of which is concurrent with the DSW's concession. The royalties in respect of the products manufactured by the Bromine Company are received by DSW from the Bromine Company, and DSW then pays them over to the State.

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

D. Concessions (Cont.)

1. Dead Sea Works Ltd. (Cont.)

There is an arrangement relating to payment of royalties by Dead Sea Magnesium (hereinafter – "DSM") for the production of metal magnesium by virtue of a specific arrangement with the State provided in the Government's decision dated September 5, 1993. Pursuant to this arrangement, royalties are paid by DSM on the basis of carnallite used for production of magnesium. The arrangement with DSM provides that during 2006 the State may demand a reconsideration in connection with the amount of the royalties and the method of their calculation for 2007 and thereafter. The State's demand for reconsideration, as stated, was initially received at the end of 2010, and the matter is presently in an arbitration proceeding, as described below.

In 2007, a letter was received from the former Accountant General of the Israeli Ministry of Finance, claiming an underpayment of royalties amounting to hundreds of millions of shekels. Pursuant to the concession, disputes between the parties, including royalties, are to be decided by an arbitration panel of three arbitrators, comprising of two arbitrators appointed by each party, who in turn jointly appoint a third arbitrator.

In 2011, the arbitration proceeding commenced between the State of Israel and DSW, regarding the manner of calculation of the royalties under the concession and the royalties to be paid for magnesium metals and the payments or refunds deriving from these matters, if any. In the statement of claim filed by the State of Israel in the arbitration proceedings, the State of Israel is claiming the amount of $265 million in respect of underpayment of royalties for the years 2000 through 2009, with the addition of interest and linkage differences, and a change in the method of calculating the royalty payments from the sale of metal magnesium.

In 2014, a partial arbitration decision was received regarding the royalties' issue, whereby, DSW is also required to pay the State royalties on the sale of downstream products manufactured by companies that are controlled by ICL that have production plants located both in and outside of the Dead Sea area, including outside of Israel. The royalties are to be paid according to the value of the downstream products, which will be set according to the formula described in Section 15(a)(2) of the Concession Deed, based on the selling price of the downstream products to unrelated third parties less the deductions set forth in subsections (I), (II) and (III) of that Section. Regarding metal magnesium, it was decided that the State of Israel and DSW are to conclude their discussions on the subject of the amount of the royalties to be paid by DSW on metal magnesium, and if no agreement is reached the matter is to be returned to arbitration.

As part of the second stage of the arbitration, which addresses the financial calculation principles, between September 2016 and January 2017, the arbitrators issued their decisions regarding the various issues relating to the financial calculations.

In November 2016, the arbitrators' issued resolutions on the principles of calculating the interest and linkage differences to be added to the principal amounts paid to the State of Israel for the years 2000 through 2013. According to the resolution, the calculation of the principal amounts of the royalties paid for the period should be on an NIS basis and accordingly, NIS interest and linkage differences apply as stipulated in the Israeli Interest and Linkage Law.

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

D. Concessions (Cont.)

1. Dead Sea Works Ltd. (Cont.)

In October 2017, as part of the arbitration proceedings, the State submitted a calculation, in the amount of about $120 million (not including interest and linkage differences) relating to the years 2000 through 2014 reflecting, according to its contention, an additional amount of underpaid royalties. ICL rejects the above calculation and anticipates that the likelihood of its being approved by the arbitrators is lower than the likelihood it will be rejected. As at the date of the report, ICL estimates that it has sufficient provisions in its books relating to this matter. ICL expects to submit a countering opinion on its behalf during March 2018.

Based on the abovementioned royalty dispute, the total expenses recognized in ICL's financial statements commencing from 2014 including coverage of part of the State's legal expenses is $176 million ($6 million in 2017) and $60 million in respect of interest and linkage differences.

In 2017, 2016 and 2015, DSW paid current royalties to the Government of Israel in the amounts of $60 million, $53 million and $97 million, respectively. In addition, in 2017, the Company paid an amount of $68 million, in respect of royalties relating to prior periods.

2. Rotem Amfert Negev Ltd.

Rotem has been mining phosphates in the Negev in Israel for more than sixty years. The mining is conducted in accordance with phosphate mining concessions, which are granted from time to time by the Minister of National Infrastructures, Energy and Water under the Mines Ordinance, through the Supervisor of Mines in his Office (hereinafter – ''the Supervisor''), accompanied by mining authorizations issued by the Israel Lands Authority (hereinafter – "the Authority").

The concessions relate to quarries (phosphate rock) whereas the authorizations cover use of land as active mining areas.

<u>Mining concessions</u>:

Rotem has the following mining concessions:

i. Sadeh Rotem – valid up to the end of 2021;

ii. Sadeh Zafir – (Oron-Zin) – valid up to the end of 2021;

<u>Mining royalties</u>:

As part of the terms of the concessions in respect of mining of the phosphate, Rotem is required to pay the State of Israel royalties based on a calculation as stipulated in the Israeli Mines Ordinance. In January 2016, a legislative amendment entered into effect covering implementation of the recommendations of the Sheshinski Committee that changed the formula for the calculation of the royalties, by increasing the rates from 2% to 5% of the value of the quarried material and left the Supervisor the possibility of collecting royalties at a higher rate if he decided to grant a mining right in a competitive process wherein one of the selection indices is the royalty rate.

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

D. Concessions (Cont.)

2. Rotem Amfert Negev Ltd. (Cont.)

Planning and building:

The mining and quarrying activities require zoning approval of the site based on a plan in accordance with the Planning and Building Law, 1965. These plans are updated, as needed, from time to time. As at the date of the report, there are various requests at different stages of deliberations before the planning authorities.

In November 2016, the District Board for the Southern District approved a detailed site plan for mining phosphate in the Zin-Oron area. This plan, which covers an area of about 350 square kilometers, will permit the continued mining of phosphate located in the Zin valley and in the Oron valley for a period of 25 years or up to exhaustion of the raw material – whichever occurs first, with the possibility for extension (under the authority of the District Planning Board).

ICL is working to promote the plan for mining phosphates in Barir field (which is located in the southern part of South Zohar field) in the Negev Desert. In December 2015, the National Planning and Building Council (hereinafter – the National Council) approved the Policy Document regarding Mining and Quarrying of Industrial Minerals (hereinafter – the Policy Document), which included a recommendation to permit phosphate mining in the Barir field.

In the beginning of 2016, a National Outline Plan (hereinafter – “NOP 14B”), which includes the South Zohar field, was submitted for comments to the various committees, which submitted their comments and recommendations at the end of 2016. In February 2017, the Committee for Principle Planning Matters, decided to continue advancement of the mining in the South Zohar field. Concurrently, and based on a decision of the National Council, instructions were prepared by the competent authorities with respect to the performance of an environmental survey of the Barir field for purposes of its further advancement. In April 2017, the National Council recommended to the government to approve NOP 14B and determined that Barir field will be advanced as part of a detailed National Outline Plan. In December 2017, a discussion was held relating to the preparation of the detailed plan, as stated, which was approved by the government’s Housing Cabinet in January 2018. On January 29, 2018, the Minister of Health filed an appeal of the said approval, requiring compliance with the Ministry of Health’s recommendation to conduct a survey regarding the health impact in each site included in NOP 14B.

In February 2016, the municipality of Arad, together with several other plaintiffs, including residents of the town Arad, and the communities and Bedouin villages surrounding the area, filed a petition with the Israeli Supreme Court against approval of the Policy Document that authorized phosphate mining in the South Zohar field due to, among other things, a fear of potential environmental and health hazards they contend could occur. In March 2017, the Supreme Court rejected the petition.

In 2017, 2016 and 2015, Rotem paid royalties to the State of Israel in the amounts of \$4 million, \$5 million and \$4 million, respectively.

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

D. Concessions (Cont.)

3. A subsidiary in Spain (hereinafter – "ICL Iberia") was granted mining rights based on legislation of Spain's Government from 1973 and the regulations accompanying this legislation. Further to the legislation, as stated, the Government of the Catalonia region published special mining regulations whereby ICL Iberia received individual licenses for each of the 126 different sites that are relevant to the current and possible future mining activities. Some of the licenses are valid up to 2037 while the rest are effective up to 2067. The concession for the "Reserva Catalana", an additional site wherein mining has not yet been commenced, expired in 2012. ICL is acting in cooperation with the Spanish Government to obtain a renewal of the concession. According to the Spanish authorities, the concession period is valid until a final decision is made regarding the renewal.

4. United Kingdom

a. The mining rights of a subsidiary in the United Kingdom (hereinafter – "ICL UK") are based on approximately 114 mining leases and licenses for extracting various minerals, in addition to numerous easements and rights of way from private owners of land under which ICL UK operates, and mining rights in the North Sea granted by the British Crown (Crown Estates). The said mining rights cover a total area of about 374 square kilometers. As at the date of this report, all the lease periods, licenses, easements and rights of way are effective – some of the said periods will continue up to 2020 whereas some will continue up to 2038. In 2017 and 2016, the mining royalties amounted to $2 million and $3 million, respectively.

b. A UK subsidiary from ICL Specialty Fertilizers (hereinafter – "Everris UK"), has peat mines in the UK (Creca, Nutberry and Douglas Water). Peat is used as a raw material for production of detached beds for soil improvement and use as soil substitutes in growing media. The Nutberry and Douglas Water mining sites are owned by Everris UK, while the Creca mine is held under a long-term lease. The mining permits are granted by the local authorities and are renewed after examination of the local authorities. The mining permits were granted up to the end of 2024.

5. YPH JV holds two phosphate mining licenses that were issued in July 2015, by the Division of Land and Resources of the Yunnan district in China. With reference to the Haikou Mine (hereinafter – "Haikou"), the mining license is valid up to January 2043, whereas regarding the Baitacun Mine (hereinafter – "Baitacun"), the mining license is valid up to November 2018. The mining activities at Haikou are carried out in accordance with the above mentioned license. Regarding Baitacun, as was estimated at the time of the acquisition, the Company does not intend to conduct mining activities in the foreseeable future.

Renewal of mining license

In order to retain the mining licenses, YPH JV must comply with the provisions of the relevant Chinese laws and regulations regarding mining activities, including, conducting an annual examination of whether the taxes, fees and premiums relating to the mining licenses have been paid in full. In addition, YPH JV has to submit the renewal application to the Resources Department 30 days prior to expiration of the applicable mining license.

Note 20 – Contingent Liabilities, Commitments and Concessions (Cont.)

D. Concessions (Cont.)

5. (Cont.)

Natural Resources Royalties

With respect to the mining rights, commencing from July 2016, the new Natural Resources Tax Law entered into effect, which includes phosphate rock, according to which YPH JV will pay royalties of 8% on the selling price based on the market price of the rock prior to its processing. In 2017 and 2016, YPH JV paid royalties in this regard of $2 million and $6 million, respectively.

Granting of mining rights to Lindu

In February 2016, YPC issued a statement whereby in 2010 YPC entered into agreements with the local authority of Jinning County, Yunnan Province and Jinning Lindu Mining Development and Construction Co. Ltd. (hereinafter – "Lindu Company"), according to which Lindu Company is permitted to mine up to two million tons of phosphate rock from a certain area measuring 0.414 square kilometers within the area of the Haikou mine (hereinafter – "the Daqing Area") and to sell such phosphate rock to any third party in its own discretion. Prior to the establishment of YPH JV, YPC proposed to the local authority of Jinning County and Lindu Company to swap the rights granted to Lindu Company in the Daqing Area with another area that is not a part of the Haikou mine, where Lindu Company would mine. In March 2016, in a meeting held between YPC, ICL and other relevant parties, YPC stated that it could not exchange its other mines to replace the Daqing Area since Lindu Company's benefit is connected to the Daqing Area. Under the above mentioned statement, YPC has undertaken that YPH JV's mining right in the Haikou mine will not be adversely affected by the above-mentioned arrangements.

It was decided that YPH should conduct further communications with YPC and Lindu Company, for the purpose of protecting its legal rights and to urge the parties to reach a fair, just, and reasonable solution to this issue, as soon as possible.

Note 21 – Share-Based Payments

A. Non-marketable options

Company	Issuance date	Issuance details	Entitled employees	Number of instruments (thousands)	Vesting terms	Expiration date	Additional terms
Israel Corporation	2012	Non-marketable options, where for each one the offeree will be entitled to acquire from the Corporation one ordinary share of NIS 1 par value of the Corporation.	The former CEO, the former CFO and additional offerees.	–	Three equal portions on June 1, 2014, 2015 and 2016.	May 25, 2017	In accordance with the provisions of Section 102B(2) of the Income Tax Ordinance under the Capital Gain Track through a trustee.
ICL	August 6, 2014, date of grant to ICL's CEO December 2014	An issuance of non-marketable and non-transferrable options, for no consideration, under the 2014 Equity Compensation Plan, to 450 ICL officers and senior employees in Israel and overseas.	Officers and senior employees of ICL.	3,993	Three equal portions (1/3) on December 1, 2016, 2017 and 2018.	Two years after the vesting date	Upon exercise, each option may be converted into one ordinary share of NIS 1 par value of ICL. In case of on the exercise date the closing price of an ordinary share is higher than twice the exercise price (the "Share Value Cap"), the number of the exercised shares will be reduced so that the product of the exercised shares actually issued to an offeree multiplied by the share closing price will equal to the product of the number of exercised options multiplied by the Share Value Cap.
		An issuance of non-marketable and non-transferrable options, for no consideration, under the 2014 Equity Compensation Plan.	Former CEO of ICL	367			

Note 21 – Share-Based Payments (Cont.)

A. Non-marketable options

Company	Issuance date	Issuance details	Entitled employees	Number of instruments (thousands)	Vesting terms	Expiration date	Additional terms
ICL	May 12, 2015, the grant date to the CEO and the Chairman of the Board of ICL – June 29, 2015	An issuance of non-marketable and non-transferrable options, for no consideration, under the 2014 Equity Compensation Plan, to 550 ICL officers and senior employees in Israel and overseas.	Officers and senior employees of ICL.	6,729	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	The first and second tranches is at the end of 36 months after the grant date and the expiration date of the options in the third tranche is at the end of 48 months after the grant date.	Upon exercise of each option, it may be converted into one ordinary share of NIS 1 par value of ICL.
		An issuance of non-marketable and non-transferrable options, for no consideration, under the 2014 Equity Compensation Plan.	Former CEO of ICL	530			
			Former Chairman of the Board of ICL	404			
ICL	June 30, 2016, the grant date to the CEO and the Chairman of the Board of ICL – September 5, 2016	An issuance of non-marketable and non-transferrable options, for no consideration, under the 2014 Equity Compensation Plan, to 90 ICL officers and senior employees in Israel and overseas.	Officers and senior employees of ICL.	3,035	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	June 30, 2023	Upon exercise of each option, it may be converted into one ordinary share of NIS 1 par value of ICL. See also Section B2 below.
		An issuance of non-marketable and non-transferrable options, for no consideration, under the 2014 Equity Compensation Plan.	Former CEO of ICL	625			
			Chairman of the Board of ICL	186			

Company	Issuance date	Issuance details	Entitled employees	Number of instruments (thousands)	Vesting terms	Expiration date	Additional terms
ICL	February 14, 2017	An issuance of non-marketable and non-transferrable options, for no consideration, under the 2014 Equity Compensation Plan.	Acting CEO of ICL	114	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	February 14, 2024	Upon exercise of each option, it may be converted into one ordinary share of NIS 1 par value of ICL.
ICL	June 20, 2017, the grant date to the Chairman of the Board of ICL – August 2, 2017	An issuance of non-marketable and non-transferrable options, for no consideration, under the 2014 Equity Compensation Plan, to 498 ICL officers and senior employees in Israel and overseas.	Officers and senior employees of ICL.	6,868	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	June 20, 2024	Upon exercise of each option, it may be converted into one ordinary share of NIS 1 par value of ICL.
		An issuance of non-marketable and non-transferrable options, for no consideration, under the 2014 Equity Compensation Plan.	Chairman of the Board of ICL	165			

Note 21 – Share-Based Payments (Cont.)

B. Additional details regarding non-marketable options (Cont.)

ICL

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 exercise price is linked to the CPI that is known as of 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 (gross), based on the amount thereof in NIS on the effective date.

The fair value of the options granted in 2014, as part of 2014 equity compensation plan, was estimated using the binomial model for pricing options. The grants in 2015 and 2016 and 2017 under the 2014 Equity Compensation Plan were estimated using the Black & Scholes model for pricing options. The parameters used in applying the models are as follows:

	Under the 2014 plan			
	Granted 2014	Granted 2015	Granted 2016	Granted 2017
Share price (in $)	8.2	7.0	3.9	4.5
CPI-linked exercise price (in $)	8.4	7.2	4.3	4.3
Expected volatility:				
First increment	29.40%	25.40%	30.51%	31.88%
Second increment	31.20%	25.40%	30.51%	31.88%
Third increment	40.80%	28.80%	30.51%	31.88%
Life of options (in years):				
First increment	4.3	3.0	7.0	7.0
Second increment	5.3	3.0	7.0	7.0
Third increment	6.3	4.0	7.0	7.0
Risk-free interest rate:				
First increment	(0.17%)	(1.00)%	0.01%	0.37%
Second increment	0.05%	(1.00)%	0.01%	0.37%
Third increment	0.24%	(0.88)%	0.01%	0.37%
Fair value (in $ millions)	8.4	9.0	4.0	11.3
Weighted-average fair value on grant date of option ($)	1.9	1.2	1.1	1.58

The expected volatility was determined on the basis of the historical volatility in ICL's share prices on the Tel-Aviv Stock Exchange.

The expected life of the options was determined on the basis of Management's estimate of the period the employees will hold the options, taking into consideration their position with ICL and ICL's past experience regarding the turnover of employees.

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 or similar to the anticipated life of the option.

Note 21 – Share-Based Payments (Cont.)

B. Additional details regarding non-marketable options (Cont.)

ICL (Cont.)

The cost of the benefit embedded in the options and shares from the Equity Compensation Plans 2012 and 2014 is recognized in the statement of income over the vesting period of each portion. Accordingly, in 2017, 2016 and 2015, ICL recorded expenses of $16 million, $15 million and $15 million, respectively.

The movement in the options during 2017 and 2016 are as follows (in millions):

	Number of options	
	2012 plan	**2014 plan**
Balance as at January 1, 2016	11	12
Movement in 2016:		
Granted during the year	–	4
Expired during the year	(8)	–
Forfeited during the year	–	(2)
Balance as at December 31, 2016	3	14
Movement in 2017:		
Granted during the year	**–**	**7**
Expired during the year	**(3)**	**–**
Forfeited during the year	**–**	**(1)**
Options outstanding as at December 31, 2017	**–**	**20**

The exercise prices of exercisable options at the beginning and the end of each period are shown below:

	December 31 2017	December 31 2016	December 31 2015
Granted 2014 ($)	**7.43**	6.81	6.90
Granted 2015 ($)	**7.59**	6.95	6.98
Granted 2016 ($)	**4.68**	4.35	-
Granted 2017 ($)	**4.35**	-	-

The number of shares that vested at the end of each period and the weighted-average exercise price of these options are shown below:

	December 31 2017	December 31 2016	December 31 2015
Number of exercisable options (in millions)	**12**	10	11
Average exercise price (in NIS)	**22.56**	30.49	40.74
Average exercise price (in $)	**6.51**	7.93	10.44

* ICL's share price as of December 31, 2017: NIS 13.95 ($4.02).

Note 21 – Share-Based Payments (Cont.)

B. Additional details regarding non-marketable options (Cont.)

ICL (Cont.)

The range of the exercise prices for options outstanding at the end of the period is shown below:

	December 31 2017	December 31 2016	December 31 2015
Range of exercise price (in NIS)	**15.01–26.30**	16.59–40.78	26.92–40.74
Range of exercise price (in $)	**4.33–7.59**	4.31–10.61	6.9–10.44

The average remaining life of vested options at the end of each period is shown below:

	December 31 2017	December 31 2016	December 31 2015
Average remaining life of vested options at the end of each period	**2.60**	2.40	1.91

Note 21 – Share-Based Payments (Cont.)

C. Restricted shares

Company	Issuance date	Entitled employees	Number of instruments (thousands)	Vesting terms (1)	Instrument terms	Additional information	Fair value on grant date ($ millions)
ICL	August 6, 2014, for ICL's CEO – December 11, 2014	Officers and senior employees of ICL.	922	3 equal tranches: (1) 1/3 on December 1 2016, (2) 1/3 on December 1 2017, and (3) 1/3 on December 1, 2018	An issuance for no consideration, under the 2014 Equity Compensation Plan, to about 450 officers and senior employees in Israel and overseas.		8.4
		Former CEO of ICL	86		An issuance for no consideration, under the 2014 Equity Compensation Plan	The value of the restricted shares was determined according to the closing price on the Tel Aviv Stock Exchange on the most recent trading day preceding the grant date (the date approval of the BOD and/or the date of the approval of the General Meeting if required).	
ICL	February 26, 2015	Directors of ICL (except for ICL's CEO) (*)	99	3 tranches: 50% will vest on August 28, 2015; 25% will vest on February 26, 2017; 25% will vest on February 26, 2018	An issuance for no consideration, under the 2014 Equity Compensation Plan to 11 directors.		0.7
ICL	May 12, 2015, date of grant to the CEO and Chairman of the Board of ICL – June 29, 2015	Officers and senior employees of ICL.	1,194	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.	An issuance for no consideration, under the 2014 Equity Compensation Plan to about 550 officers and senior employees in Israel and overseas.		9.7
		Former CEO of ICL	90		An issuance for no consideration, under the 2014 Equity Compensation Plan		
		Former Chairman of the Board of ICL	68				
ICL	December 23, 2015	Directors of ICL (except for ICL's CEO and Chairman of the Board) (**)	121	3 equal tranches: (1) 1/3 on December 23 2016, (2) 1/3 on December 23 2017, and (3) 1/3 on December 23, 2018	An issuance for no consideration, under the 2014 Equity Compensation Plan to 8 directors.		0.5

(1) The vesting date is subject to the entitled employee continuing to be employed by ICL and the directors continuing to serve in their positions on the vesting date, unless they ceased to hold office due to certain circumstances set forth in Sections 231-232a and 233(2) of the Israeli Companies Law.

(*) 27,234 restricted shares that were issued to officers of Israel Corporation, who serve as directors of ICL, were assigned to Israel Corporation.

(**) 45,345 restricted shares that were issued to officers of Israel Corporation, who serve as directors of ICL, were assigned to Israel Corporation.

Note 21 – Share-Based Payments (Cont.)

C. Restricted shares

<table>
<tr><th>Company</th><th>Issuance date</th><th>Entitled employees</th><th>Number of instruments (thousands)</th><th>Vesting terms (1)</th><th>Instrument terms</th><th>Additional information</th><th>Fair value on grant date ($ millions)</th></tr>
<tr><td>ICL</td><td>June 30, 2016, for ICL's CEO and Chairman of the Board – September 5, 2016</td><td>Officers and senior employees of ICL.</td><td>990</td><td rowspan="5">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.</td><td>An issuance for no consideration, under the 2014 Equity Compensation Plan, to 90 officers and senior employees in Israel and overseas.</td><td rowspan="5">The value of the restricted shares was determined according to the closing price on the Tel Aviv Stock Exchange on the most recent trading day preceding the grant date (the date approval of the BOD and/or the date of the approval of the General Meeting if required).</td><td rowspan="3">4.8</td></tr>
<tr><td></td><td></td><td>Chairman of ICL’s Board of Directors</td><td>55</td><td rowspan="2">An issuance for no consideration, under the 2014 Equity Compensation Plan</td></tr>
<tr><td></td><td></td><td>Former CEO of ICL</td><td>185</td></tr>
<tr><td>ICL</td><td>January 3, 2017</td><td>Directors of ICL (except for ICL’s CEO and Chairman of the Board) (***)</td><td>146</td><td>An issuance for no consideration, under the 2014 Equity Compensation Plan, to 8 directors.
The value includes a reduction of 5% from the value of the equity compensation, pursuant to the decision of the directors in March 2016, to reduce their annual cash compensation for 2016 and 2017.</td><td>0.6</td></tr>
<tr><td>ICL</td><td>February 14, 2017</td><td>ICL’s Acting CEO</td><td>38</td><td>An issuance for no consideration, under the 2014 Equity Compensation Plan, as amended.</td><td>0.2</td></tr>
</table>

(1) The vesting date is subject to the entitled employee continuing to be employed by ICL and the directors continuing to serve in their positions on the vesting date, unless they ceased to hold office due to certain circumstances set forth in Sections 231-232a and 233(2) of the Israeli Companies Law.

(***) 54,909 restricted shares that were issued to officers of Israel Corporation, who serve as directors of ICL, were assigned to Israel Corporation.

Note 21 – Share-Based Payments (Cont.)

C. Restricted shares

Company	Issuance date	Entitled employees	Number of instruments (thousands)	Vesting terms (1)	Instrument terms	Additional information	Fair value on grant date ($ millions)
ICL	June 20, 2017, for ICL's CEO and Chairman of the Board of ICL – August 2, 2017	Officers and senior employees of ICL	2,211		An issuance for no consideration, under the 2014 Equity Compensation Plan, to 494 officers and senior employees in Israel and overseas.		10
		Chairman of the Board of ICL –	53		An issuance for no consideration, under the 2014 Equity Compensation Plan.		0.3
ICL	Subsequent to the date of the report, on January 10, 2018	Directors of ICL (not including the CEO and Chairman of the Board of ICL)	125		An issuance for no consideration, under the 2014 Equity Compensation Plan, to 5 directors.		0.5

(1) The vesting date is subject to the entitled employee continuing to be employed by ICL and the directors continuing to serve in their positions on the vesting date, unless they ceased to hold office due to certain circumstances set forth in Sections 231-232a and 233(2) of the Israeli Companies Law.

Subsequent to the date of the report, on February 25, 2018, the Company’s Board of Directors resolved, after discussing the recommendation of the Search Committee headed by the Company’s Chairman of the Board, Mr. Johanan Locker, to appoint Mr. Raviv Zoller as Chief Executive Officer of ICL.

Subsequent to the date of the report, on February 22, 2018 and February 25, 2018, ICL’s HR & Compensation Committee and Board of Directors, respectively, approved an equity grant of 2018 to Mr. Raviv Zoller, comprised in half of non-marketable and non-transferrable options exercisable into ordinary shares and in half of restricted shares, in a total value of NIS 4 million (about $1.15 million). The grant is subject to the approval of the General Meeting of ICL’s shareholders at the expected to be held on April 24, 2018.

Subsequent to the date of the report, on March 5, 2018 and March 6, 2018, ICL’s HR & Compensation Committee and Board of Directors, respectively, approved an equity grant of 2018 of 6,072,242 non-marketable and non-transferrable options exercisable for ordinary shares, for no consideration and 1,802,811 restricted shares, to approximately 550 of the Company’s officers and senior employees. The total fair value of the grant, based on an initial valuation of the options and restricted shares is NIS 53 million ($15 million).

Note 21 – Share-Based Payments (Cont.)

C. Restricted shares (Cont.)

The options and restricted shares will vest in three equal tranches: one-third at the end of 12 months after the grant date, one-third at the end of 24 months after the grant date and one-third at the end of 36 months after the grant date. The expiration date of the options is 7 years from the grant date. Each option may be exercised for one ordinary share of NIS 1 par value of ICL. The ordinary shares issued as a result of exercise of the options have the same rights as ICL's ordinary shares, immediately upon the issuance thereof. The options issued to the employees in Israel are subject to the provisions of Section 102 of the Israeli Income Tax Ordinance (New Version) and the regulations promulgated thereunder. ICL elected to execute the issuance through a trustee, under the Capital Gains Track.

The exercise price is set according to the average closing share price in TASE in the 30 trading days prior to the grant date and is linked to the CPI that is known on the date of payment. In a case of distribution of a dividend by ICL, the exercise price is reduced on the "ex-dividend" date, by the amount of the dividend per share (gross), based on the amount thereof in NIS on the effective date.

Note 22 – Share Capital and Reserves

A. Share Capital and Premium

	Ordinary shares	
	2017	**2016**
	Thousands of shares of NIS 1 par value	
Issued and paid-up share capital as at December 31 (1)	**7,698**	7,698
Authorized share capital	**160,000**	160,000

Each ordinary share from the Corporation's share capital has the right to dividends, to bonus shares and to distribution of the Corporation's assets upon liquidation, in proportion to the par value of each share, without taking any premium paid in respect thereof, all subject to the Corporation's Articles of Association. Each of the shares entitles its holder to participate in the Corporation's General Meetings and to one vote.

The Corporation's shares are registered for trading on the Tel-Aviv Stock Exchange.

(1) As at the date of the report, a wholly-owned subsidiary of the Corporation holds 72,322 ordinary shares of NIS 1 par value each of the Corporation, constituting about 0.94% of the Corporation's issued share capital.

B. Translation reserve of foreign operations

The translation reserve includes all the foreign currency differences stemming from translation of financial statements of foreign activities.

Note 22 – Share Capital and Reserves (Cont.)

C. Capital reserves

Capital reserves include:

A hedge fund, which includes the effective part of the accrued net change in the fair value of instruments hedging the cash flows and that relate to hedged transactions not yet realized that have not yet been recorded in the statement of income.

A capital reserve including charge of salaries expenses against a corresponding increase in capital in connection with share-based payments to employees.

A capital reserve including the change in the fair value of financial instruments available for sale (investment in 15% of the share capital of YTH – see Note 33.G(2)).

D. Regarding issuance of options to employees – see Note 21 regarding Share-Based Payments.

E. Dividends

Subsequent to the date of the report, 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 will be distributed on April 23, 2018.

As part of the transaction for changing the holdings' structure, as stated in Note 5, on January 15, 2015, the Corporation distributed a cash dividend, in the amount of about $200 million (about $26.2 per share), and on January 9, 2015, the Corporation distributed an additional dividend as a dividend in-kind of Kenon shares, having a value of about $950 million.

On August 20, 2015, the Corporation's Board of Directors decided to distribute a dividend in the amount of $100 million – about $13.11 per share. The dividend was distributed on September 17, 2015.

Note 22 – Share Capital and Reserves (Cont.)

F. Other comprehensive income

	Attributable to the Corporation's shareholders					
	Translation reserve for foreign activities	Capital reserves	Retained earnings	Total	Non-controlling interests	Total other comprehensive other income (loss), net of tax
	$ millions					
2017						
Foreign currency translation differences in respect of foreign activities	70	–	–	70	81	151
Actuarial losses from defined benefit plans	–	–	(8)	(8)	(9)	(17)
Group's share in other comprehensive income of equity-based investee companies	–	5	–	5	–	5
Effective portion of the change in fair value of cash flow hedges	–	17	–	17	–	17
Net change in fair value of cash flow hedges transferred to the statement of income	–	(16)	–	(16)	–	(16)
Net change in fair value of financial assets available for sale	–	(27)	–	(27)	(30)	(57)
Income taxes in respect of components of other comprehensive income	–	2	1	3	5	8
Total other comprehensive income (loss) for the year, net of tax	**70**	**(19)**	**(7)**	**44**	**47**	**(91)**

Note 22 – Share Capital and Reserves (Cont.)

F. Other comprehensive income (Cont.)

	Attributable to the Corporation's shareholders					
	Translation reserve for foreign activities	Capital reserves	Retained earnings	Total	Non-controlling interests	Total other comprehensive other income (loss), net of tax
	$ millions					
2016						
Foreign currency translation differences in respect of foreign activities	(42)	–	–	(42)	(48)	(90)
Actuarial losses from defined benefit plans	–	–	(23)	(23)	(25)	(48)
Group's share in other comprehensive income of equity-based investee companies	1	–	–	1	–	1
Effective portion of the change in fair value of cash flow hedges	–	1	–	1	(1)	–
Net change in fair value of cash flow hedges transferred to the statement of income	–	(1)	–	(1)	–	(1)
Net change in fair value of financial assets available for sale	–	8	–	8	9	17
Income taxes in respect of components of other comprehensive income	5	(2)	4	7	1	8
Total other comprehensive income (loss) for the year, net of tax	(36)	6	(19)	(49)	(64)	(113)

Note 22 – Share Capital and Reserves (Cont.)

F. Other comprehensive income (Cont.)

	Attributable to the Corporation's shareholders					
	Translation reserve for foreign activities	Capital reserves	Retained earnings	Total	Non-controlling interests	Total other comprehensive other income (loss), net of tax
	$ millions					
2015						
Foreign currency translation differences in respect of foreign activities	(98)	–	–	(98)	(109)	(207)
Actuarial gains from defined benefit plans	–	–	31	31	32	63
Group's share in other comprehensive income of equity-base investee companies	2	-	–	2	–	2
Effective portion of the change in fair value of cash flow hedges	–	(4)	–	(4)	(1)	(5)
Net change in fair value of cash flow hedges transferred to the statement of income	–	2	–	2	–	2
Income taxes in respect of components of other comprehensive income	–	–	(7)	(7)	(8)	(15)
Total other comprehensive income (loss) for the year, net of tax	(96)	(2)	24	(74)	(86)	(160)

Note 23 – Cost of Sales

	For the year ended December 31		
	2017	**2016**	**2015**
		$ millions	
Materials	**1,504**	1,546	1,576
Salaries and related expenses	**777**	753	694
Energy	**343**	315	305
Other production expenses	**1,129**	1,091	1,038
	3,753	3,705	3,613

Note 24 – Research and Development Expenses, Net

	For the year ended December 31		
	2017	**2016**	**2015**
		$ millions	
Salaries and related expenses	**40**	48	54
Other	**15**	25	20
	55	73	74

Note 25 – Selling, Transport and Marketing Expenses

	For the year ended December 31		
	2017	**2016**	**2015**
		$ millions	
Transport	**497**	475	417
Salaries and related expenses	**122**	119	113
Other	**127**	128	123
	746	722	653

Note 26 – General and Administrative Expenses

	For the year ended December 31		
	2017	**2016**	**2015**
		$ millions	
Salaries and related expenses	**173**	191	158
Professional services	**50**	79	108
Other expenses	**44**	59	99
	267	329	365

Note 27 – Other Income and Expenses

	For the year ended December 31		
	2017	**2016**	**2015**
		$ millions	
Other income			
Electricity costs in respect of prior periods	**6**	16	–
Past service costs	**–**	14	–
Capital gain on sale of subsidiaries	**54**	–	215
Revaluation gain on collar options (2)	**–**	–	82
Income from insurance claims	**30**	30	20
Other	**19**	11	15
	109	71	332
Other expenses			
Arbitration expenses in respect of past royalties	**6**	13	10
Provision for legal claims	**25**	8	8
Provision for treatment of waste	**–**	51	20
Provision for environmental protection	**7**	–	–
Electricity costs in respect of prior periods	**–**	–	20
Impairment in value of assets (1)	**32**	489	90
Expenses in respect of early retirement and exit of employees	**20**	39	48
Loss from revaluation of collar options (2)	**7**	5	–
Other	**3**	18	15
	100	623	211

(1) See Note 15.
(2) See Note 16E1(j).

Note 28 – Financing and Other Expenses, Net

	For the year ended December 31		
	2017	**2016**	**2015**
		$ millions	
Financing income			
Net change in fair value of derivative financial instruments	**(149)**	(21)	–
Interest income from bank deposits	**(21)**	(20)	(13)
Net gain from change in exchange rates	**–**	–	(60)
Financing income recorded in the statement of income	**(170)**	(41)	(73)
Financing expenses			
Interest expenses to banks and others	**214**	258	207
Net loss from change in exchange rates	**153**	18	–
Net change in fair value of derivative financial instruments	**–**	–	73
Financing expenses in respect of employee benefits	**38**	17	18
Financing expenses	**405**	293	298
Less – capitalized credit costs	**23**	22	21
Financing expenses recorded in the statement of income	**382**	271	277
Net financing expenses recorded in the statement of income	**212**	230	204

(1) The interest expenses in 2016 include $38 million in respect of an agreement with the Tax Authorities in Israel and interest relating to the royalties' arbitration.

Note 29 – Taxes on Income

A. Taxes on income included in the statement of income

	For the year ended December 31		
	2017	**2016**	**2015**
		$ millions	
Current taxes on income (tax benefits)			
In respect of current year	**215**	66	159
Adjustments in respect of prior years, net (*)	**(29)**	28	(142)
	186	94	17
Deferred tax income			
Creation and reversal of temporary differences	**(24)**	(44)	(10)
Total taxes on income	**162**	50	7

(*) The balance, as at December 31, 2017, includes tax income of $25 million as a result of the decision of the Appeals Court in Belgium of an appeal filed by ICL regarding allowance of deduction of certain expenses (see Section G(4) above).

Note 29 – Taxes on Income (Cont.)

B. Reconciliation between the theoretical tax on the pre-tax income and the tax expenses

	For the year ended December 31		
	2017	**2016**	**2015**
		$ millions	
Income (loss) before taxes on income	**468**	(178)	703
Statutory tax rate	**24%**	25%	26.5%
Tax computed at the principal tax rate applicable to the Corporation	**112**	(45)	186
Increase (decrease) in tax in respect of:			
Tax benefits deriving from reduction in the tax rate in respect of Approved Enterprise and Benefited Enterprise less Natural Resources Tax	**(4)**	(3)	(22)
Elimination of tax calculated in respect of the Corporation's share in income of associated companies	**(18)**	(18)	(23)
Tax losses and temporary differences with respect to which deferred taxes were not recorded and non-deductible expenses	**22**	167	23
Differences deriving from additional deduction and different tax rates for subsidiaries in and outside of Israel	**23**	(38)	(15)
Taxes on income due to distribution of intercompany dividends	**18**	–	–
Impact of change in the tax rate	**(13)**	(34)	–
Tax income (expenses), net, in respect of prior years	**(29)**	28	(142)
Differences in measurement basis (mainly ILS vs USD)	**38**	1	–
Other differences	**13**	(8)	–
Taxes on income included in the statement of income	**162**	50	7

Note 29 – Taxes on Income (Cont.)

C. Deferred tax assets and liabilities

1. Deferred tax assets and liabilities recognized

The deferred taxes in respect of companies in Israel are calculated based on the tax rate expected to apply at the time of the reversal as detailed above. Deferred taxes in respect of subsidiaries operating outside of Israel were calculated based on the tax rates relevant for each country.

The deferred tax assets and liabilities are allocated to the following items:

	Property plant and equipment	Provisions for employee benefits	Inventory	Carryforward of losses and deductions for tax purposes	Other	Total
	$ millions					
Balance of deferred tax asset (liability) as at January 1, 2016	(361)	106	46	128	(91)	(172)
Changes recorded in the statement of income	(29)	(11)	(11)	11	12	(28)
Changes recorded to capital	–	8	–	(1)	(5)	2
Changes in translation reserves	1	(6)	–	(5)	7	(3)
Changes tax rates	59	(21)	–	(6)	2	34
Business combinations	(2)	–	–	–	–	(2)
Balance of deferred tax asset (liability) as at December 31, 2016	(332)	76	35	127	(75)	(169)
Changes recorded in the statement of income	**76**	**1**	**(17)**	**(41)**	**16**	**35**
Changes recorded to capital	**–**	**3**	**–**	**–**	**5**	**8**
Changes in translation reserves	**(6)**	**5**	**–**	**1**	**–**	**–**
Changes in tax rates	**13**	**–**	**–**	**–**	**–**	**13**
Transfer to assets held for sale	**2**	**–**	**–**	**–**	**1**	**3**
Balance of deferred tax asset (liability) as at December 31, 2017	**(247)**	**85**	**18**	**87**	**(53)**	**(110)**

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Note 29 – Taxes on Income (Cont.)

C. Deferred tax assets and liabilities

2. Deferred tax assets and liabilities not recognized

Deferred tax assets were not recognized in respect of the following items:

	As at December 31	
	2017	2016
	$ millions	$ millions
Losses for tax purposes	**2,727**	2,598

Pursuant to the existing tax laws, there is no time limitation on the utilization of tax losses and on utilization of deductible temporary differences. Deferred tax assets were not recognized in respect of these differences, since it is not expected that there will be taxable income in the future against which it will be possible to utilize the tax benefits.

3. Linkage terms:

	As at December 31	
	2017	2016
	$ millions	
Dollar	**10**	(25)
Euro	**33**	30
NIS	**(180)**	(195)
British pound	**22**	17
Other	**5**	4
	(110)	(169)

4. Taxes on income relating to equity categories:

	For the year ended December 31		
	2017	2016	2015
		$ millions	
Actuarial gains from defined benefit plans	**3**	10	(15)
Changes in fair value of financial assets available for sale	**5**	(2)	–
Taxes in respect of exchange rate differences on equity loan to subsidiary that includes translation differences	**(5)**	(1)	3
	3	7	(12)

Note 29 – Taxes on Income (Cont.)

D. Taxation of companies in Israel

1. Set forth below are the tax rates that are relevant to the Group companies in Israel in the years 2015-2018 and thereafter:

   2015 – 26.5%
   2016 – 25%
   2017 – 24%
   2018 and thereafter – 23%

   On December 22, 2016 the plenary Knesset passed the Economic Efficiency Law (Legislative Amendments for Achieving the Budget Targets for 2017 and 2018), 2016, which provides, among other things, for a reduction of the Companies Tax rate from 25% to 23% in two steps – the first step to the rate of 24% commencing from 2017 and the second step to the rate of 23% commencing from 2018 and thereafter, along with reduction of the tax rate applicable to "Preferred Enterprises" (see D.2.b below) regarding factories in the peripheral suburban areas, from 9% to 7.5%, as part of amendment of the Law for Encouragement of Capital Investments.

   The current taxes for the periods reported are calculated in accordance with the tax rates shown in the table above.

2. Tax benefits under the Law for Encouragement of Capital Investments, 1959 (hereinafter – "the Encouragement Law")

   a. Benefited Enterprise

      The production facilities of some of the subsidiaries in Israel (hereinafter – "the Companies") have been granted "Benefited Enterprise" status under the Encouragement Law, including Amendment No. 60 to the Law enacted in April 2005.

      The main benefits for which the Companies are eligible are:

      (i) Reduced tax rates

      Regarding the "tax exemption" track, the Company chose 2005 as the election year, whereas regarding the "Ireland" track, which is subject to tax at the rate of 11.5%, the Company chose 2008 as the election year. 2012 was also chosen as an election year although tax benefits are not received for this election year due to erosion of the turnover compared with the average turnover for the three years preceding 2012. The benefits deriving from a "Beneficiary Enterprise" under the "Tax Exemption" track ended in 2014, while the benefits deriving from the "Ireland" track ended in 2017.

Note 29 – Taxes on Income (Cont.)

D. Taxation of companies in Israel (Cont.)

3. Tax benefits under the Law for Encouragement of Capital Investments, 1959 (hereinafter – "the Encouragement Law") (Cont.)

a. Benefited Enterprise (Cont.)

The main benefits for which the Companies are eligible are: (Cont.)

(i) Reduced tax rates (Cont.)

A company having a "Beneficiary Enterprise" that distributes a dividend out of exempt income, will be subject to Companies Tax in the year in which the dividend was distributed on the amount distributed (including the amount of the Companies Tax applicable due to the distribution) at the tax rate applicable under the Encouragement Law in the year in which the income was produced, had it not been exempt from tax.

The temporary difference related to distribution of a dividend from exempt income as at December 31, 2017, in respect of which deferred taxes were not recognized, is in the amount of about $702 million.

The part of the taxable income entitled to benefits at reduced tax rates is calculated on the basis of the ratio of the turnover of the "Benefited Enterprise" to the Corporation's total turnover. The turnover attributed to the "Benefited Enterprise" is generally calculated according to the increase in the turnover compared to a "base" turnover, which is the average turnover in the three years prior to the year of election of the "Benefited Enterprise".

(ii) Accelerated depreciation

In respect of buildings, machinery and equipment used by the Approved Enterprise, the Company is entitled to claim accelerated depreciation as provided by law, commencing from the year each asset is placed in service.

b. Preferred Enterprise

On December 29, 2010, the Israeli Knesset approved the Economic Policy Law for 2011-2012, whereby the Law for the Encouragement of Capital Investments, 1959, was amended (hereinafter – "the Amendment"). The Amendment is effective from January 1, 2011 and its provisions will apply to preferred income derived or accrued by a Preferred Company, as defined in the Amendment, in 2011 and thereafter.

Note 29 – Taxes on Income (Cont.)

D. Taxation of companies in Israel (Cont.)

3. Tax benefits under the Law for Encouragement of Capital Investments, 1959 (hereinafter – "the Encouragement Law") (Cont.)

   b. Preferred Enterprise (Cont.)

   The Amendment does not apply to an Industrial Enterprise that is a mine, other facility for production of minerals or a facility for exploration of fuel. Therefore, ICL plants that are defined as mining plants and mineral producers will not be able to take advantage of the tax rates proposed as part of the Amendment. In addition, on August 5, 2015, the Law for Change in the Order of National Priorities, 2015, was passed by the Knesset, which provides that the tax rate applicable to a Preferred Company in Development Area A will be 9% whereas the tax applicable to companies in the rest of Israel will be 16%. Pursuant to the amendment to the Encouragement law that was approved as part of the Economic Efficiency Law (Legislative Amendments for Achieving the Budget Targets for 2017 and 2018), 2017, the tax rate applicable to enterprises in the suburban areas was reduced from 9% to 7.5%. ICL has Preferred Enterprises at the tax rate of 7.5%.

   On November 30, 2015, the Economic Efficiency Law was passed by the Knesset, which expanded the exception to all of an Enterprise's activities up to the time of the first marketable product (for additional details – see Section 4 below). Nonetheless, tax benefits to which a Benefited Plant is entitled will not be cancelled in respect of investments up to December 31, 2012. Therefore, those plants will be able to utilize the tax benefits in respect of qualifying investments made up to December 31, 2012, in accordance with the provisions of the old law.

   It is further provided in the Amendment that tax will not apply to a dividend distributed out of preferred income to a shareholder that is an Israeli-resident company. A dividend distributed out of preferred income to a shareholder that is an individual or a foreign resident will be subject to tax at the rate of 20%, subject to a treaty for prevention of double taxation.

3. The Law for Encouragement of Industry (Taxes), 1969

   a. Some of ICL's Israeli subsidiaries are "Industrial Enterprises", as defined in the above-mentioned law.

   b. The Industrial Enterprises owned by some of ICL's Israeli subsidiaries have a common line of production and, therefore, they file, together with ICL, a consolidated tax return in accordance with Section 23 of the Law for the Encouragement of Industry. Accordingly, each of the said companies is entitled to offset its tax losses against the taxable income of the other companies.

Note 29 – Taxes on Income (Cont.)

D. Taxation of companies in Israel (Cont.)

4. The Law for Taxation of Profits from Natural Resources, 1969

On November 30, 2015, the Knesset passed the Law for Taxation of Profits from Natural Resources (hereinafter – "the Law"), which entered into effect in 2016, except with respect to Dead Sea Works, regarding which the Law enters into effect in 2017. The highlights of the Law are set forth below:

The total tax on natural resources in Israel will include three tax elements: royalties, Natural Resources Tax and Companies Tax.

Royalties

The rate of the royalties in connection with resources produced from the quarries, in accordance with the Mines Ordinance will be 5% (with respect to production of the phosphates, the royalty rate will be 5% of the value of the quantity produced – in place of 2%).

Pursuant to the salt harvesting agreement signed with the Government on July 8, 2012, the parties agreed, among other things, to an increase in the rate of the royalties from 5% to 10% of the sales, for every quantity of potash chloride sold by ICL in a given year, in excess of a quantity of 1.5 million tons. As part of the agreement, it was provided that if a law is enacted that changes the specific fiscal policy with reference to profits or royalties deriving from quarrying from the Dead Sea, ICL's consent to the increase of the rate of the royalties, as stated, will not apply. The Law entered into effect on January 1, 2016. For additional details – see Note 20D.

Imposition of Natural Resources Tax

The tax base, which will be calculated for every mineral separately, is the mineral's operating income in accordance with the accounting statements of income, to which certain adjustments will be made, less financing expenses at the rate of 5% of ICL's average working capital, and less an amount that reflects a yield of 14% on the property, plant and equipment used for production and sale of the quarried material (hereinafter – "the Yield on the Property, Plant and Equipment"). On the tax base, as stated, a progressive tax will be imposed at a rate to be determined based on the Yield on the Property, Plant and Equipment in that year. For the Yield on the Property, Plant and Equipment between 14% and 20%, Natural Resources Tax will be imposed at the rate of 25%, while the yield in excess of 20% will be subject to Natural Resources Tax at the rate of 42%. In years in which the Natural Resources Tax base is negative, the negative amount will be carried forward from year to year and will constitute a tax shield in the succeeding tax year. The above computations, including the right to use prior years' losses, are made separately, without taking into account setoffs, for each natural resource production and sale activity.

Note 29 – Taxes on Income (Cont.)

D. Taxation of companies in Israel (Cont.)

5. The Law for Taxation of Profits from Natural Resources, 1969 (Cont.)

Imposition of Natural Resources Tax (Cont.)

Limitations on the Natural Resources Tax – the Natural Resources Tax will only apply to profits deriving from the actual production and sale of each of the following resources: potash, bromine, magnesium and phosphates, and not to the profits deriving from the downstream industrial activities. Calculation of the Natural Resources Tax will be made separately for every resource. Nonetheless, regarding Magnesium, it was provided that commencing from 2017, upon sale of carnalite by Dead Sea Works (hereinafter – "DSW") to Magnesium and reacquisition of a Sylvanite by-product by DSW, Magnesium will charge DSW $100 per ton of potash which is produced from the Sylvanite (linked to the CPI).

A mechanism was provided for determination of the market price with respect to transactions in natural resources executed between related parties in Israel, as well as a mechanism for calculation of the manner for allocation of the expenses between the production and sale of the natural resource, on the one hand, and the downstream activities, on the other hand.

Regarding the bromine resource, the Natural Resources Tax will apply in the same manner in which it is applies to the other natural resources, except with respect to the manner of determining the transfer price in sales made to related parties in and outside of Israel. For purposes of calculating the total revenues from bromine sold to related parties for purposes of downstream manufacturing activities in every tax year, a calculation method will be employed (Netback) whereby the price will be determined based on the higher of the following:

1) The price for a unit of bromine (ton) provided in the transaction;

2) The normative price of a unit of bromine. The normative price of a unit of bromine is the total sales of the downstream products produced less the operating expenses attributable to the downstream activities, without the acquisition cost of the bromine, and less an amount equal to 12% of the total revenues of the downstream products produced as part of the downstream activities, where the result is divided by the number of bromine units used to produce the downstream products sold.

Note 29 – Taxes on Income (Cont.)

D. Taxation of companies in Israel (Cont.)

5. The Law for Taxation of Profits from Natural Resources, 1969 (Cont.)

Imposition of Natural Resources Tax (Cont.)

Regarding the phosphate resource, for purposes of calculating the total revenues from phosphate sold to related parties for purposes of downstream manufacturing activities in every tax year, a calculation method will be employed (Netback) whereby the price will be determined based on the higher of the following:

1) The price for a unit of phosphate (ton) provided in the transaction;

2) The normative price of a unit of phosphate. The "normative price" of a unit of phosphate is the total sales of the downstream products produced less the operating expenses attributable to the downstream activities, without the acquisition cost of the phosphate rock, and less an amount equal to 12% of the total revenues of the downstream products produced as part of the downstream activities, where the result is divided by the number of phosphate units used to produce the downstream products sold.

3) The production and operating costs attributable to a unit of phosphate.

Companies Tax

The Law for Encouragement of Capital Investments was revised such that the definition of a "Plant for Production of Quarries" will include all the plant's activities up to production of the first marketable natural resource, of potash, bromine, magnesium and phosphates. Accordingly, activities involved with production of the resource will not be entitled to tax benefits under the Law, whereas activities relating to downstream products, such as bromine compounds, acids and fertilizers, will not constitute a base for calculating the Excess Profits Tax and will not be excepted from inclusion in the Law.

The Natural Resource Tax will be deductible from ICLs taxable income and ICL will pay the Companies Tax on the balance as is customary in Israel.

Note 29 – Taxes on Income (Cont.)

E. Taxation of companies outside of Israel

The subsidiaries that are incorporated outside of Israel are assessed based on the tax laws in their resident countries. The main tax rates applicable to the primary subsidiaries outside of Israel are as follows:

Country	Tax Rate	Reference
United States	40%	(1)
Brazil	34%	
Germany	29%	
Netherlands	25%	
Spain	25%	
China	25%	
United Kingdom	19%	(2)

(1) On December 22, 2017, the U.S. government enacted comprehensive tax legislation “ the Tax Cuts and Jobs Act” (hereinafter – “the Tax Act”). The Tax Act significantly revises the future ongoing U.S. Federal corporate income tax by, among other things, lowering U.S. corporate income tax rates and implementing a territorial tax system. The lower corporate income tax rates are effective as of January 1, 2018.

Based on the Tax Act provisions, ICL’s deferred tax assets and liabilities were re-measured in order to reflect the lower Federal corporate tax rate of 21% in the tax balances. As a result, as part of the financial statements for 2017, ICL reduced the balances of the assets and liabilities for deferred taxes, in the net amount of about $13 million, against deferred tax income.

As part of the transition to the new territorial tax system, the Tax Act imposes a one-time repatriation tax on deemed repatriation of historical earnings and profits (hereinafter – “E&P”) of foreign subsidiaries. Based on ICL’s estimation relating to E&P, as at December 31, 2017, there is no need to record a provision.

In addition, the Tax Act establishes new tax laws that could affect ICL in future fiscal years, including, creation of the base erosion anti-abuse tax (BEAT), a new minimum tax. In ICL’s estimation, there will be no significant impact, if any, on its future tax results.

The new Tax Act is comprehensive and complex and might lead to future circulars and interpretations which may impact ICL’s estimates. Based on ICL’s estimation, the provisions in the financial statements as at December 31, 2017, are in accordance with the Tax Act and represent the “best estimate”.

(2) The tax rate in the UK was reduced commencing from April 2017 to 19% and from April 2020 to 17%.

Note 29 – Taxes on Income (Cont.)

F. Tax loss carryforwards

As at December 31, 2017, the balances of the carryforward tax losses to future years of the Group and of the Corporation for which deferred taxes were recorded, amount to about $369 million and about $61 million respectively (December 31, 2016 – about $537 million and about $83 million, respectively).

As at December 31, 2017, the balances of the carryforward tax losses to future years of the Group and of the Corporation for which deferred taxes were not recorded, amount to about $622 million and about $166 million, respectively (December 31, 2016 – about $654 million and about $122 million respectively).

As at the date of the report, the capital losses for tax purposes available for carryforward to future years, of the Group and of the Corporation, for which deferred taxes were not recorded, amount to about $2,105 million and about $1,898 million, respectively (December 31, 2016 – about $1,942 million and about $1,725 million, respectively).

G. Tax assessments

1. The Corporation has received final tax assessments and/or considered as final tax assessments up to and including the 2012 year.

2. ICL and the subsidiaries consolidated with it for tax purposes have received final tax assessments up to and including the 2011 year. ICL's main subsidiaries outside of Israel have received final tax assessments up to and including the 2010, 2011 and 2012 years.

3. In June 2017, ICL received an assessment from the Israeli Tax Authority (ITA) whereby it is required to pay tax in addition to the amount it already paid in respect of the 2012-2014 tax years, in the amount of about $50 million. ICL disputes the assessment and in September 2017, the Company filed an objection to ITA. In ICL's estimation, as at the date of the report, it has a sufficient provision in its books, in an immaterial amount.

4. Subsequent to the date of the report, in January 2018, the Appeals Court for Tax matters in Belgium accepted an appeal filed by a subsidiary of ICL regarding allowance of certain expenses for deduction in prior periods. As a result, as part of the financial statements for 2017, ICL cancelled a provision, in the amount of about $28 million – about $25 million against "tax income" and about $3 million against "financing income" in the statement of income.

Note 29 – Taxes on Income (Cont.)

H. Uncertain ax positions

The measurement of the tax provisions as at December 31, 2017, requires the exercise of judgment regarding tax positions, which might lead to a demand for additional tax payments by the Tax Authorities in future periods. A provision will be recorded only when ICL estimates that the chances its positions will be accepted are lower than the chances they will be rejected. According to ICL's estimation, the total potential tax exposure, for which no provision was recorded, amounts to about $150 million. In addition, it is possible that the Tax Authorities will present additional demands in respect of tax positions that are not known to ICL at this stage. Below are ICL's main tax positions which compose the estimated amount referred to above:

1. The tax provisions for the years 2015 to 2017 in certain subsidiaries in Israel were calculated considering certain deductible costs such as: provision for waste removal, losses from exchange rates and interest expenses. Based on ICL's experience, the Tax Authorities could object to ICL's opinion of its entitlement to deduct all or part of those expenses.

2. As described above, the Law for Taxation of Profits from Natural Resources is a new law that entered into effect with respect to the bromine, phosphate and magnesium minerals in 2016, while regarding the potash mineral, in 2017. As at the date of the report, no regulations had yet been issued under the Law, no circulars had been published and no court decisions had been rendered regarding the Law. The manner of application of the Law, including preparation of the financial statements for the mineral, requires interpretations and assumptions regarding a number of significant matters which require Management's judgment.

   Based on the interpretation of the law, ICLs position is that the carrying amount of the property, plant and equipment in the financial statements of the mineral, regarding which a yield was provided at the rate of 14%, will be presented in accordance with generally accepted accounting principles on the basis of fair value revaluation on the date the Law enters into effect. Measurement of the property, plant and equipment, for this purpose, in accordance with historical values, would have resulted in an increase in the tax expenses. ICL believes that the chance that its position will be accepted is higher than the chance it will be rejected. The Tax Authorities could demand additional payments in future periods, even in very significant amounts, as a result of different interpretation of applying the Law, including other matters aside from the measurement of the property, plant and equipment. As at the date of the report, in ICL's estimation, the provision in the financial statements represents the best estimate of the tax payment ICL will incur as a result of application of the Law.

3. The Industrial Enterprises owned by some of ICL's Israeli subsidiaries have a common line of production or meet other relevant criteria and, therefore, they file, together with ICL, a consolidated tax return, in accordance with the Law for the Encouragement of Industry. In ICL's opinion, in accordance with the conditions stipulated in the Law, Dead Sea Magnesium may be reported in the consolidated tax return and, therefore, ICL utilizes DSM's current losses for tax purposes against the taxable income of the other companies. It should be noted that in the last tax assessment agreement, the Tax Authority accepted ICL's position.

Note 29 – Taxes on Income (Cont.)

H. Uncertain ax positions (Cont.)

4. Subsequent to the date of the report, in January 2018, the Appeals Court in Belgium accepted an appeal filed by a subsidiary of ICL regarding allowance of certain expenses for deduction in prior periods. As a result, in its financial statements for 2017, ICL cancelled a provision, in the amount of about $28 million. The Belgium Tax Authorities may appeal against this resolution and based on ICL's knowledge, they have files appeals in similar cases (not against ICL). It is noted that as at the date of the report, the Belgium Tax Authorities had not filed an appeal regarding the ICL matter (see Note 29G).

5. In June 2017, ICL received an assessment from the Israeli Tax Authorities whereby it is required to pay tax, in addition to the amount it already paid in respect of the 2012-2014 tax years, in the amount of about $50 million. ICL disputes the assessment and filed an objection with the Israeli Tax Authorities (see Note 29G). In addition, there is a dispute with the Israeli Tax Authorities regarding the tax assessment for 2010-2015 regarding one of the companies manufacturing downstream products in Israel, regarding which the Tax Authorities raised several issues regarding the deductibility of certain expenses, as well as with reference to meeting the criteria provided in the Encouragement Law.

Note 30 – Earnings per Share

Data used in calculation of the basic and diluted earnings per share

A. Income from continuing operations allocated to the holders of the ordinary shares

	For the year ended December 31		
	2017	**2016**	**2015**
		$ millions	
Income (loss) for the year allocable to the owners of the Corporation	**135**	(116)	440
Impacts of the share in income (losses) of investee companies	**1**	(1)	(2)
Income (loss) for the year allocated to the owners of the Corporation (basic)	**136**	(117)	438

B. Weighted-average number of ordinary shares

	For the year ended December 31		
	2017	**2016**	**2015**
		Thousands of ordinary shares	
Weighted-average number of shares used in calculation of the basic and diluted earnings per share	**7,626**	7,626	7,626

Note 31 – Segment Information

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, water purification and desalination, detergents, cosmetics, pharmaceuticals and vehicles.

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 applying, by means of early adoption, the provisions of IFRS 9 (2013) (hereinafter – "the Standard"). Since Israel Corporation is not applying the said Standards by means of early adoption, the Corporation makes adjustments to ORL's statements in its financial statements. The data included in this note includes the impacts of the early adoption of these Standards.

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.

C. Capital investments of the segments, for each of the three years, include mainly property, plant and equipment and intangible assets acquired in the ordinary course of business and as part of business combinations.

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

Note 31 – Segment Information (Cont.)

D. Information regarding reportable segments

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

	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**
Other significant non-cash items:				
Decline in value and significant eliminations of property, plant and equipment, intangible assets and other assets	**32**	**–**	**–**	**32**
Segment assets	**8,685**	**4,013**	**(2,881)**	**9,817**
Investments in associated companies	**29**	**2**	**547**	**578**
				10,395
Segment liabilities	**5,784**	**2,811**	**(837)**	**7,758**
Capital investments	**507**	**131**	**(131)**	**507**

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

Note 31 – Segment Information (Cont.)

D. Information regarding reportable segments (Cont.)

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

	ICL	ORL	Adjustments (1)	Total
	$ millions			
2016:				
Total sales to external customers	5,363	4,321	(4,321)	5,363
EBITDA (2)	1,051	427	(434)	1,044
Depreciation and amortization	401	141	(138)	404
Financing income	(25)	(2)	(14)	(41)
Financing expenses	157	134	(20)	271
Share in income of associated companies	(18)	–	(52)	(70)
Unusual or one-time expenses and adjustments	653	(44)	49	658
	1,168	229	(175)	1,222
Income (loss) before taxes	(117)	198	(259)	(178)
Taxes on income	55	40	(45)	50
Income (loss) for the year	(172)	158	(214)	(228)
Other significant non-cash items:				
Decline in value and significant eliminations of property, plant and equipment, intangible assets and other assets	489	9	(9)	489
Segment assets	8,399	3,665	(2,355)	9,709
Investments in associated companies	153	2	559	714
				10,423
Segment liabilities	5,893	2,630	(361)	8,162
Capital investments	652	190	(190)	652

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

Note 31 – Segment Information (Cont.)

D. Information regarding reportable segments (Cont.)

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

	ICL	ORL	Adjustments (1)	Total
	$ millions			
2015:				
Total sales to external customers	5,405	5,491	(5,491)	5,405
EBITDA (2)	1,361	677	(692)	1,346
Depreciation and amortization	353	145	(134)	364
Financing income	(52)	(6)	(15)	(73)
Financing expenses	160	146	(29)	277
Share in income of associated companies	(11)	(1)	(74)	(86)
Unusual or one-time expenses and adjustments	243	129	(211)	161
	693	413	(463)	643
Income before taxes	668	264	(229)	703
Taxes on income	162	39	(194)	7
Income for the year	506	225	(35)	696
Other significant non-cash items:				
Decline in value of property, plant and equipment and intangible assets	75	9	–	84
Segment assets	8,916	3,495	(2,291)	10,120
Investments in associated companies	159	5	503	667
				10,787
Segment liabilities	5,889	2,626	(450)	8,065
Capital investments	1,270	96	(96)	1,270

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

Note 31 – Segment Information (Cont.)

D. Information at the entity level

Information based on geographic areas

In presentation of the information on the basis of geographic areas, the segment revenues are based on the geographic location of the assets. The segment's assets are based on the geographic location of the assets.

The Group's revenues from sales to outside customers on the basis of the geographic location of the assets are as follows:

	For the year ended December 31		
	2017	**2016**	**2015**
	$ millions		
Europe	**2,256**	2,255	2,433
North America	**999**	1,001	1,098
Israel	**7,116**	5,747	6,934
Other	**671**	681	431
	11,042	9,684	10,896
Adjustments (1)	**(5,624)**	(4,321)	(5,491)
Total revenues	**5,418**	5,363	5,405

(1) The adjustments stem from the ORL segment.

The Group's non-current assets based on geographic location (property, plant and equipment and intangible assets):*

	As at December 31	
	2017	**2016**
	$ millions	
Europe	**1,275**	1,164
America	**321**	381
Israel	**5,794**	5,652
Other	**401**	477
	7,791	7,674
Adjustments (1)	**(2,299)**	(2,285)
Total assets	**5,492**	5,389

(1) The adjustments stem from the ORL segment.

* Composed mainly of property, plant and equipment and intangible assets.

Note 31 – Segment Information (Cont.)

E. Sales by main activity areas

ICL Potash & Magnesium – ICL Potash & Magnesium extracts potash from the Dead Sea and mines and produces potash and salt from subterranean mines in Spain and the UK. ICL Potash & Magnesium processes the potash into its types and markets it globally and also carries on other intercompany operations not solely related to the potash activities. ICL Potash & Magnesium also mines and produces Polysulphate™ (mined as polyhalite ore) in a subterranean mine in the UK. The magnesium business produces, markets and sells pure magnesium and magnesium alloys, and also produces dry carnallite and related by-products, including chlorine and sylvinite.

ICL Phosphate – ICL Phosphate mines and processes phosphate rock from open pit mines – three of which are located in the Negev Desert in Israel while the fourth is situated in the Yunnan province in China. In addition, ICL Phosphate produces sulphuric acid, fertilizer-grade ("green") phosphoric acid and phosphate fertilizers in its facilities in Israel, China and Europe. Furthermore, ICL Phosphate manufactures phosphate-based food additives for livestock in Turkey. ICL Phosphate markets its products worldwide, mainly in Europe, Brazil, India and China.

ICL Specialty Fertilizers – ICL Specialty Fertilizers produces water soluble specialty fertilizers in the Netherlands and Belgium, liquid fertilizers and soluble fertilizers in Israel and Spain, and controlled-release fertilizers in the Netherlands and the United States. ICL Specialty Fertilizers markets its products worldwide, mainly in Europe, China, North America and Israel.

ICL Industrial Products – ICL Industrial Products produces bromine out of a solution that is created as a by-product of the KCl production process in Sodom, Israel, as well as bromine-based compounds. ICL Industrial Products uses most of the bromine it produces for self-production of bromine compounds at its production sites in Israel, the Netherlands and China. In addition, ICL Industrial Products produces several grades of KCl, salt, magnesium chloride and magnesia products. ICL Industrial Products is also engaged in the production and marketing of phosphorous-based flame retardants and additional phosphorus-based products.

ICL Advanced Additives – ICL Advanced Additives primarily develops, produces, markets and sells a broad range of acids and specialty phosphates for various applications in a large number of industries, including metal and water treatment, paints and coatings, cleaning materials, oral hygiene, carbonated drinks and asphalt modification. The diverse products and market base support and are consistent with ICL's strategy of increasing production of downstream products with higher added value. ICL Advanced Additives purifies some of the fertilizer-grade phosphoric acid manufactured by ICL Phosphate and also manufactures thermal phosphoric acid. The purified phosphoric acid and thermal phosphoric acid are used to manufacture downstream products with high added value – phosphate salts and acids – which are used in the various industries mentioned above. Relating to the divestiture of the fire safety and oil additives business, see Note 5.

Note 31 – Segment Information (Cont.)

E. Sales by main activity areas (Cont.)

ICL Food Specialties – ICL Food Specialties is a leader in developing and producing functional food ingredients and phosphate additives, which provide texture and stability solutions for the processed meat, poultry, seafood, dairy, beverage and baked goods markets. In addition, the business line produces milk and whey proteins for the food ingredients industry and provides blended, integrated solutions based on dairy proteins and phosphate additives. The business line operates primary production locations in Germany, the United States, Brazil, China, and Austria, which mainly process phosphates, milk, and spices, and also operates blending facilities in Germany, the UK, the United States, Brazil, Argentina and Australia, enabling ICL to produce "customer specific" solutions that meet the requirements of the local market.

	For the year ended					
	2017		2016		2015	
	$ millions	%	$ millions	%	$ millions	%
Industrial Products	**1,193**	**22**	1,120	21	1,034	19
Advanced Additives	**877**	**16**	798	15	781	14
Food Specialties	**596**	**11**	659	12	613	11
Phosphate	**1,052**	**19**	1,163	22	1,064	20
Potash and Magnesium	**1,383**	**26**	1,338	25	1,515	28
Specialty Fertilizers	**692**	**13**	661	12	680	13
All other and setoffs	**(375)**	**(7)**	(376)	(7)	(282)	(5)
Total	**5,418**	**100**	5,363	100	5,405	100

Note 32 – Related and Interested Parties

A. Benefits to key management personnel (including directors)

Benefits in respect of employment of key management personnel (including directors) include:

	For the year ended December 31					
	2017		2016		2015	
	No. of persons	$ millions	No. of persons	$ millions	No. of persons	$ millions
Compensation and Short-term employee benefits	**1**	**0.9**	1	0.7	1	0.8
Share-based payments	**1**	**–**	1	0.2	1	0.6
		0.9		0.9		1.4

Benefits in respect of directors not employed by the Corporation:

	For the year ended December 31					
	2017		2016		2015	
	No. of persons	$ millions	No. of persons	$ millions	No. of persons	$ millions
Directors not employed	**8**	**0.5**	9	0.6	10	0.8

B. Transactions with interested and related parties:0.0.

	For the year ended December 31		
	2017	2016	2015
	$ millions		
Sales	**–**	1	3
Operating expenses	**28**	39	52
Administrative and general expenses	***–**	*–	*–
Financing income, net	**40**	16	13

* Amount less than $1 million

Note 32 – Related and Interested Parties (Cont.)

C. Balances with interested and related parties:

	December 31				
	2017				2016
	Companies related to the controlling shareholder	Bank Mizrahi group	Other interested and related parties	Total interested and related parties	Total interested and related parties
	$ millions				
Cash and cash equivalents	–	1	–	1	74
Short-term deposits and loans (1)	240	192	–	432	225
Long-term assets (1)	–	–	–	–	223
Other current liabilities	1	–	1	2	4

(1) See Section F below.

D. Transactions and balances with associated companies

	As at December 31	
	2017	2016
	$ millions	
Trade receivables	11	8
Other receivables	* –	* –
Other non-current assets	1	1
Trade payables	3	2
Other payables and credit balances	* –	* –

* Amount less than $1 million.

	For the year ended December 31		
	2017	2016	2015
	$ millions		
Sales	6	5	4
Cost of sales	10	5	5
Administrative and general	* –	* –	* –
Financing income, net	* –	–	–

* Amount less than $1 million.

Note 32 – Related and Interested Parties (Cont.)

E. Regarding indemnification and liability insurance of officers – see Note 20.C.1.

F. During 2015 and 2016, pursuant to a credit framework agreement between the Corporation and Kenon as part of a transaction for change of the Corporation's holdings' structure, as stated in Note 1, the Corporation provided Kenon a loan, in the amount of about $200 million. For additional details – see Note 11.

G. In 2013, ICL's Board of Directors approved to ICL subsidiaries in Israel to sign an agreement for acquisition of electricity from OPC Rotem (a company related to the Corporation's controlling shareholder).

H. Regarding restricted shares of ICL that were issued to officers of the Corporation and were assigned to Israel Corporation – see Note 21C.

I. On April 24, 2016, Bank Leumi L'Israel Ltd. gave notice that it sold all of the Corporation's shares it held, 451,252 shares, which constituted about 5.86% of the Corporation's issued shares. Commencing from that date, Bank Leumi L'Israel Ltd. ceased to be an interested party in the Corporation.

Note 33 – Financial Instruments

A. General

The Group has extensive international activity wherein it is exposed to credit, liquidity and market risks (including currency, interest, inflation and other price risks). In order to reduce the exposure to these risks, the Group holds derivative financial instruments, (including forward transactions, SWAP transactions, and options) for the purpose of economic (non-accounting) hedging of foreign currency risks, inflation risks, commodity price risks, interest risks and risks relating to the price of inputs. Furthermore, the Group holds derivative financial instruments to hedge its risk in respect of changes in the cash flows of issued bonds, and part of such instruments are accounting hedges.

This Note presents information regarding the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing the risk.

In order to cope with these risks and as detailed below, the Group enters into transactions in derivative financial instruments. Set forth below is the composition of the derivatives:

	As at December 31	
	2017	**2016**
	$ millions	
Derivatives presented as part of current assets		
Forward contracts and exchange rate options used for economic hedging	**1**	8
Current maturity of interest exchange (SWAP) contracts used for hedging	**4**	1
Derivative instruments on energy and marine shipping	**4**	4
Call (put) options on ICL shares (collar)	**25**	27
TOTAL	**34**	40
Derivatives presented as part of non-current assets		
Interest exchange (SWAP) contracts used for hedging	**27**	7
Interest exchange (SWAP) contracts used for economic hedging	**80**	5
Call (put) options on ICL shares (collar)	**21**	47
TOTAL	**128**	59

Note 33 – Financial Instruments (Cont.)

A. General (Cont.)

In order to cope with these risks and as detailed below, the Group enters into transactions in derivative financial instruments. Set forth below is the composition of the derivatives: (Cont.)

	As at December 31	
	2017	**2016**
	$ millions	
Derivatives presented as part of current liabilities		
Forward contracts and exchange rate options used for economic hedging	**3**	3
Current maturity of interest exchange transactions used for hedging	**1**	1
Current maturity of interest SWAP contracts used for economic hedging	**–**	9
TOTAL	**4**	13
Derivatives presented as part of non-current liabilities		
Interest exchange transactions used for economic hedging	**3**	5
Interest SWAP contracts used for economic hedging	**–**	4
TOTAL	**3**	9

B. Risk management process

The risk management of the Group companies is executed by them as part of the ongoing current management of the companies. The Group companies monitor the extent of the exposure on a regular basis. The hedge policies with respect to all the different types of exposures are discussed by the boards of directors of the companies.

The comprehensive responsibility for establishing the base for the Group's risk management and for supervising its implementation lies with the boards of directors of the companies. The Board of Directors appointed the Corporation's CFO to manage the risks of the Corporation and of the headquarters companies. The Finance Committees discuss the risk management of the companies on a current basis, as part of the discussion of the quarterly results, as a control over application of the policies and for purposes of updating them, if necessary. The managements of the companies apply the policies determined while making reference to the actual developments and the developments in the market.

The Audit Committee of the Board of Directors, in accordance with the work plan determined from time to time, also supervises Management's monitoring of compliance with the Corporation's risk management policies and procedures.

Note 33 – Financial Instruments (Cont.)

C. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counter-party to a financial asset fails to meet its contractual obligations, and arises principally from the Group's trade and other receivables and from investments in securities.

The Group's cash and cash equivalents, short-term deposits and short-term marketable investments are deposited mainly in banks and financial institutions in Israel, Europe and the United States. In the Group's evaluation, the credit risk in respect of these balances is low.

The Group companies deposit most of their liquid monetary assets in short-term bank deposits and securities. All the deposits are with banks while spreading the amounts appropriately among the banks and preferring use of banks that provide loans to the Group.

The transactions in derivatives are executed with local and foreign financial institutions, and therefore, in the opinion of the Group's management the credit risk in respect thereof is low.

ICL sells to a wide variety and a large number of customers, including customers where the balance of their credit is significant. On the other hand, ICL does not have a concentration of sales to individual customers.

ICL has a fixed policy of insuring the credit risk of all its customers by means of purchasing credit insurance from insurance companies, except for sales to governmental bodies and sales in small amounts. All the rest of the sales are made only after receipt of approval of coverage in a sufficient scope from an insurance company or other collaterals at a similar level.

The use of credit insurance companies, as stated, provides professional and objective risk management by an outside expert party and transfers most of the credit risk to a third party. Nonetheless, the customary self-participation (insurance deductible) with respect to credit insurance is 10% (and in a small number of cases at an even higher rate), which effectively leaves part of the risk with the company out of the total insured amount.

In addition, ICL has an additional self-participation (insurance deductible), in the cumulative amount of about $6 million per year through a captive re-insurance company that is wholly owned by ICL.

ICL has dealt with most of its customers for many years and in only rare cases has it sustained credit losses. The financial statements include specific provisions for doubtful debts, which properly reflect, based on the estimates of ICL's management, the loss embedded in debts the collection of which is doubtful.

Note 33 – Financial Instruments (Cont.)

C. Credit risk (Cont.)

(1) Exposure to credit risk

The maximum exposure to credit risk for trade receivables, as at the date of the report, by geographic region was as follows:

	As at December 31	
	2017	**2016**
	$ millions	
Cash and cash equivalents	**159**	211
Short-term investments, deposits and loans	**558**	651
Trade receivables	**932**	966
Other receivables and debit balances, including derivatives	**115**	88
Financial assets available for sale	**212**	253
Loan to related company	**240**	223
Derivative instruments and long-term debit balances	**136**	68
	2,352	2,460

	As at December 31	
	2017	**2016**
	$ millions	
Western Europe	**332**	274
North America	**131**	154
South America	**70**	102
Asia	**227**	261
Israel	**70**	82
Other	**102**	93
	932	966

Note 33 – Financial Instruments (Cont.)

C. Credit risk (Cont.)

(2) Aging of debts and impairment losses

Set forth below is an aging of the trade receivables:

	As at December 31, 2017		As at December 31, 2016	
	For which impairment was not recorded	Impairment	For which impairment was not recorded	Impairment
	$ millions			
Not past due	**785**	**–**	832	–
Past due up to 3 months	**125**	**–**	91	–
Past due 3–12 months	**23**	**(6)**	44	(1)
Past due more than one year	**10**	**(5)**	5	(5)
	943	**(11)**	972	(6)

The movement in the provision for impairment in respect of trade receivables was as follows:

	2017	2016
	$ millions	
Balance as at January 1	**6**	11
Additional provision	**5**	1
Write offs	**(1)**	(3)
Cancellation of provision	**–**	(2)
Changes due to translation differences	**1**	(1)
Balance as at December 31	**11**	6

D. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and pressure conditions, without incurring unwanted losses.

The Group manages the liquidity risk by means of holding cash balances, short-term deposits, other liquid financial assets and credit lines from banks.

Note 33 – Financial Instruments (Cont.)

D. Liquidity risk (Cont.)

Set forth below are the anticipated repayment dates of the financial liabilities, including an estimate of the interest payments. This disclosure does not include amounts regarding which there are offset agreements:

	As at December 31, 2017					
	Book value	Projected cash flows	Up to 1 year	1–2 years	2–5 years	More than 5 years
	$ millions					
Non-derivative financial liabilities						
Credit from banks and others*	635	646	646	–	–	–
Trade payables	790	790	790	–	–	–
Other current liabilities	332	332	332	–	–	–
Debentures**	2,745	3,306	286	330	1,128	1,562
Long-term loans**	1,713	1,905	155	414	1,288	48
Financial liabilities – used for economic hedging						
Interest SWAP contracts and options	6	6	3	–	–	3
	6,221	6,985	2,212	744	2,416	1,613

* Not including current maturities.
** Including current maturities.

Note 33 – Financial Instruments (Cont.)0

D. Liquidity risk (Cont.)

Set forth below are the anticipated repayment dates of the financial liabilities, including an estimate of the interest payments. This disclosure does not include amounts regarding which there are offset agreements: (Cont.)

	As at December 31, 2016					
	Book value	Projected cash flows	Up to 1 year	1–2 years	2–5 years	More than 5 years
	$ millions					
Non-derivative financial liabilities						
Credit from banks and others*	572	576	576	–	–	–
Trade payables	644	644	644	–	–	–
Other current liabilities	360	360	360	–	–	–
Debentures**	2,677	3,296	382	254	999	1,661
Long-term loans*	2,330	2,591	177	433	1,861	120
Financial liabilities – used for economic hedging						
Interest SWAP contracts and options	16	31	9	8	10	4
Derivatives on exchange rates	3	3	3	–	–	–
	6,602	7,501	2,151	695	2,870	1,785

* Not including current maturities.
** Including current maturities.

E. Market risks

The Group buys and sells derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Boards of Directors of the companies. For the most part, the Group companies enter into hedging transactions for purposes of avoiding economic exposures created by their activities. Most of the transactions entered into do not meet the conditions for recognition as an accounting hedge and, therefore, differences in their fair values are recorded on the statement of income.

Note 33 – Financial Instruments (Cont.)

E. Market risks (Cont.)

(1) CPI and foreign currency risk

<u>Currency risk</u>

The Group's functional currency is the U.S. dollar. The exposures of the Group companies are measured with reference to the changes in the exchange rate of the dollar vis-à-vis the other currencies in which it transacts business.

The Group is exposed to currency risk on sales, purchases, assets and liabilities that are denominated in a currency other than the respective functional currencies of the Group entities. The primary exposure is to the shekel, euro, pound, yuan and Brazilian real.

The Group uses options and forward exchange contracts on exchange rates for purposes of hedging short-term currency risks, usually up to one year, in order to reduce the risk of an impact stemming from changes in the currency exchange rates with respect to the final cash flows deriving from the existing assets and liabilities and sales and purchases of goods and services within the framework of firm or anticipated commitments, denominated in foreign currency.

The Group is exposed to currency risk in connection with loans it has taken out and debentures it has issued in currencies other than the dollar. The principal amounts of these bank loans and debentures have been hedged by swap transactions the repayment date of which corresponds with the payment date of the loans and debentures.

<u>Inflation risk</u>

The Group companies have issued shekel debentures or CPI-linked debentures. In order to reduce part of the exposure to changes in the CPI, the Group makes use of index, interest and currency swaps.

Some of the current expenses of the Group companies are linked to the CPI while the revenues are linked to the dollar. This difference in the linkage base is a source of exposure from inflationary developments, this being in addition to other CPI-linked liabilities.

This exposure is discussed by the managements of the companies only where there is a forecast of significant changes in the macro-economic indicators.

Note 33 – Financial Instruments (Cont.)

E. Market risks (Cont.)

(1) CPI and foreign currency risk (Cont.)

(A) Exposure to CPI and foreign currency risks

Details regarding linkage:

	As at December 31, 2017						
	Dollar	Foreign currency					
		Shekel			British		
		Unlinked	CPI linked	Euro	pound	Yuan	Other
	$ millions						
Non-derivative instruments							
Cash and cash equivalents	94	2	–	18	7	22	16
Short-term investments and deposits	105	445	–	1	–	5	2
Loan to related company	240	–	–	–	–	–	–
Trade receivables	419	59	–	246	48	92	68
Receivables and debit balances	40	39	–	1	–	–	1
Financial assets available for sale	–	–	–	–	–	212	–
Other non-current assets	5	–	–	1	–	–	3
Total financial assets	903	545	–	267	55	331	90
Credit from banks and others	332	36	174	158	20	173	8
Trade payables	187	289	–	182	23	85	24
Other current liabilities	113	99	–	77	15	21	7
Debentures and long-term loans	2,808	716	523	29	–	98	22
Total financial liabilities	3,440	1,140	697	446	58	377	61

Note 33 – Financial Instruments (Cont.)

E. Market risks (Cont.)

(1) CPI and foreign currency risk (Cont.)

(A) Exposure to CPI and foreign currency risks (Cont.)

Details regarding linkage: (Cont.)

	As at December 31, 2016						
	Dollar	Foreign currency					
		Shekel			British		
		Unlinked	CPI linked	Euro	pound	Yuan	Other
	$ millions						
Non-derivative instruments							
Cash and cash equivalents	77	61	–	22	2	38	11
Short-term investments and deposits	139	501	–	–	–	5	6
Trade receivables	533	50	–	199	36	84	64
Receivables and debit balances	41	5	–	–	–	–	–
Financial assets available for sale	–	–	–	–	–	253	–
Loan to related company	223	–	–	–	–	–	–
Other non-current assets	8	–	–	1	–	–	–
Total financial assets	1,021	617	–	222	38	380	81
Credit from banks and others	341	151	158	101	21	165	9
Trade payables	138	201	–	161	23	107	14
Other current liabilities	39	228	–	59	10	17	9
Debentures and long-term loans	3,014	716	630	150	–	87	36
Total financial liabilities	3,532	1,296	788	471	54	376	68

Note 33 – Financial Instruments (Cont.)

E. Market risks (Cont.)

(1) CPI and foreign currency risk (Cont.)

(B) Terms of derivative instruments used for foreign currency risk

	As at December 31, 2017		
	Book value	Denominated value	Average exchange rate
	$ millions		
Forward transactions			
NIS / dollar	2	430	3.5
Dollar / euro	(3)	320	1.2
Euro / pound	–	20	0.9
Dollar / pound	–	24	1.3
Dollar / yen	(1)	33	6.7
Other	–	33	–
Currency and interest SWAPs			
NIS / dollar	109	870	3.7
Put options			
NIS / dollar	5	525	3.4
Dollar / euro	–	63	1.2
Yen / dollar	–	3	115.5
Call options			
NIS / dollar	(1)	525	3.4
Dollar / euro	(2)	63	1.2
Yen / dollar	–	3	115.5

The payment date of most of the derivatives the use of which is for purposes of hedging the exposure to foreign currency is up to one year.

Note 33 – Financial Instruments (Cont.)

E. Market risks (Cont.)

(1) CPI and foreign currency risk (Cont.)

(B) Terms of derivative instruments used for foreign currency risk (Cont.)

	As at December 31, 2017		
	Book value	Denominated value	Average exchange rate
	$ millions		
Forward transactions			
NIS / dollar	–	483	3.8
Dollar / euro	4	265	1.1
Dollar / yen	–	4	115.9
Dollar / pound	1	84	1.3
Dollar / yuan	1	30	6.8
Other	–	10	–
Currency and interest SWAPs			
NIS / dollar	(1)	1,045	3.7
Put options			
NIS / dollar	4	599	3.7
Dollar / euro	2	41	1.1
Dollar / yen	–	3	107.7
Euro / pound	–	15	0.8
Dollar / pound	(1)	11	1.3
Call options			
NIS / dollar	(6)	599	3.7
Dollar / euro	–	41	1.1
Dollar / yen	–	3	107.7
Euro / pound	–	15	0.8
Dollar / pound	–	11	1.3

The payment date of most of the derivatives the use of which is for purposes of hedging the exposure to foreign currency is up to one year.

Note 33 – Financial Instruments (Cont.)

E. Market risks (Cont.)

(1) CPI and foreign currency risk (Cont.)

(C) Sensitivity analysis

A strengthening at the rate of 5%–10% of the dollar exchange rate against the following currencies would have increased (decreased) the income or loss and the capital as at December 31, 2017, by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis as at December 31, 2016.

	As at December 31, 2017			
	10% increase	**5% increase**	**5% decrease**	**10% decrease**
	$ millions			
Non-derivative instruments				
Shekel/dollar	**134**	**69**	**(74)**	**(153)**
Dollar/euro	**(9)**	**(4)**	**4**	**9**
CPI	**(74)**	**(37)**	**37**	**74**
Other	**(2)**	**(1)**	**1**	**1**

	As at December 31, 2016			
	10% increase	**5% increase**	**5% decrease**	**10% decrease**
	$ millions			
Non-derivative instruments				
Shekel/dollar	133	69	(74)	(154)
Dollar/euro	(75)	(38)	38	75
CPI	(82)	(41)	41	82

Note 33 – Financial Instruments (Cont.)

E. Market risks (Cont.)

(1) CPI and foreign currency risk (Cont.)

(C) Sensitivity analysis (Cont.)

Set forth below is a sensitivity analysis in connection with the Corporation's foreign-currency derivative instruments as at December 31, 2017 and December 31, 2016. A change in the exchange rates of the main currencies as at December 31, would have increased (decreased) the income or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	As at December 31, 2017			
	10% increase	5% increase	5% decrease	10% decrease
	$ millions			
Derivative instruments				
Shekel/dollar	**(110)**	**(48)**	**64**	**141**
Dollar/euro	**41**	**20**	**(18)**	**(36)**
Dollar/pound	**2**	**1**	**(1)**	**(3)**
CPI	**38**	**19**	**(19)**	**(38)**
Other	**5**	**3**	**(3)**	**(7)**

	As at December 31, 2016			
	10% increase	5% increase	5% decrease	10% decrease
	$ millions			
Derivative instruments				
Shekel/dollar	(201)	(100)	101	224
Dollar/euro	19	9	(8)	(15)
Dollar/pound	(1)	(1)	–	(1)
CPI	44	22	(22)	(43)
Other	(2)	(1)	–	1

Note 33 – Financial Instruments (Cont.)

E. Market risks (Cont.)

(2) Interest rate risk

The Group is exposed to changes in the interest rates in respect of loans bearing interest at variable rates, as well as in connection with swap transactions of liabilities in foreign currency for dollar liabilities bearing a variable interest rate. Therefore its financial results and cash flows are exposed to fluctuations in the market interest rates.

The Group has not set a policy limiting the exposure and it hedges this exposure based on forecasts of future interest rates.

The Group enters into transactions mainly to reduce the exposure to cash flow risk in respect of interest rates. The transactions include interest rate swaps and interest options. mainly in order to reduce the exposure to cash flow risk in respect of changes in interest rates.

(a) Type of interest

Set forth below is detail of the type of interest borne by the Group's interest-bearing financial instruments, except for derivative financial instruments:

	As at December 31	
	2017	**2016**
	Carrying amount	
	$ millions	
Fixed rate instruments		
Financial assets	**785**	698
Financial liabilities	**(3,411)**	(3,803)
	(2,626)	(3,105)
Variable rate instruments		
Financial assets	**360**	393
Financial liabilities	**(1,363)**	(1,771)
	(1,003)	(1,378)

(b) Fair value sensitivity analysis for fixed-rate instruments

The Group's assets and liabilities bearing fixed interest are not measured at fair value through the statement of income. Therefore, a change in the interest rates as at the date of the report would not be expected to affect the income or loss in respect of changes in the value of fixed-interest assets and liabilities.

Note 33 – Financial Instruments (Cont.)

E. Market risks (Cont.)

(2) Interest rate risk (Cont.)

(c) Cash flow sensitivity analysis for variable rate instruments

This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2016.

	As at December 31, 2017			
	Impact on income or loss and capital			
	1% decrease in interest	**0.5% decrease in interest**	**0.5% increase in interest**	**1% increase in interest**
	$ millions			
Non-derivative instruments	**15**	**7**	**(7)**	**(15)**
Swap transactions	**18**	**10**	**(9)**	**(18)**
	33	**17**	**(16)**	**(33)**

	As at December 31, 2016			
	Impact on income or loss and capital			
	1% decrease in interest	**0.5% decrease in interest**	**0.5% increase in interest**	**1% increase in interest**
	$ millions			
Non-derivative instruments	17	9	(9)	(17)
Swap transactions	20	9	(13)	(23)
	37	18	(22)	(40)

Note 33 – Financial Instruments (Cont.)

E. Market risks (Cont.)

(2) Interest rate risk (Cont.)

(d) Terms of derivative instruments used to hedge dollar interest risks

	As at December 31, 2017			
	Book value (fair value)	Par value	Range of expiration years	Range of interest rate
	$ millions	$ millions	Years	%
Dollar				
Variable to fixed interest contracts	**(3)**	**350**	**0–7**	**1.36%–2.6%**
Shekel				
Fixed to variable interest contracts	**64**	**489**	**0–4**	**2.45%–4.74%**
Euro				
Fixed to variable interest contracts	**(1)**	**51**	**0–1**	**Monthly Libor**

	As at December 31, 2016			
	Book value (fair value)	Par value	Range of expiration years	Range of interest rate
	$ millions	$ millions	Years	%
Economic hedge instruments				
Fixed to variable interest contracts	(6)	380	0–4	1.4–3.2

F. Other price risk

(1) Investment in shares

ICL has an investment in 15% of the issued and paid-up share capital of YTH, on a fully dilute basis, in the amount of about $212 million. The investment is measured based on its fair value. Updates of the fair value, except for impairment losses, are recorded directly to other comprehensive income.

(2) Hedge of marine shipping and energy transactions

ICL has exposure to risk in connection with marine shipping and energy costs. ICL makes use of marine shipping and energy derivatives in order to hedge against the risk that the cash flows will be impacted by changes in the marine shipping and energy prices. The fair value of the marine shipping and energy derivatives, as at December 31, 2017, was about $4.1 million.

Note 33 – Financial Instruments (Cont.)

G. Fair value

(1) Financial instruments measured at fair value for disclosure purposes only

The carrying value in the books of financial assets and financial liabilities, such as: cash and cash equivalents, investments, deposits and short-term loans, receivables and debit balances, investments and long-term receivables; short-term credit, payables and credit balances, long-term loans bearing variable interest and other liabilities; as well as derivative financial instruments, corresponds to or approximates their fair values.

The following table shows in detail the stated value and the fair value of financial instrument groups presented in the financial statements not in accordance with their fair value.

	As at December 31, 2017		
	Carrying amount	**Fair value**	**Fair value**
		Level 1	**Level 2**
		$ millions	
Liabilities			
Marketable non-convertible debentures (1)	**2,489**	**2,596**	**–**
Non-marketable non-convertible debentures (2)	**281**	**–**	**288**
Long-term loans from financial institutions (3)	**999**	**–**	**1,026**
	3,769	**2,596**	**1,314**

	As at December 31, 2016		
	Carrying amount	**Fair value**	**Fair value**
		Level 1	**Level 2**
		$ millions	
Liabilities			
Marketable non-convertible debentures (1)	2,423	2,462	–
Non-marketable non-convertible debentures (2)	281	–	283
Long-term loans from financial institutions (3)	1,135	–	1,153
	3,839	2,462	1,436

(1) The fair value of the marketable debentures is based on the stock market price on the date of the report and on classification as Level 1 in the fair value hierarchy.

(2) The fair value of the non-marketable debentures is based on calculation of the present value of the cash flows discounted based on the Libor rate customary for loans having similar characteristics. The average discount interest as at December 31, 2017 was 4.57% (December 31, 2016 – 4.98%).

(3) The fair value of the loans in shekels, euros, dollars and yuans issued at fixed interest is based on a calculation of the present value of the cash flows in respect of the principal and interest and is discounted based on the market interest rates on the measurement date of similar loans having similar characteristics and is classified at Level 2 in the fair value hierarchy. The average discount interest in 2017 for shekel, euro, dollar and yuan loans was 2.4%, 1.7%, 5.3%-3.1% and 6.1%, respectively (2016 – 3.3%, 2.3%, 2.4%-5.7% and 5.6%, respectively).

Note 33 – Financial Instruments (Cont.)

G. Fair value (Cont.)

(2) Hierarchy of fair value

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

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

	As at December 31, 2017		
	Level 2	Level 3	Total
	$ millions		
Assets			
Derivatives used for accounting hedge	**29**	**–**	**29**
Derivatives used for economic hedge	**86**	**–**	**86**
Financial assets available for sale (1)	**212**	**–**	**212**
Call (put) options on ICL shares (Collar) (2)	**–**	**47**	**47**
	327	**47**	**374**
Liabilities			
Derivatives used for accounting hedge	**1**		**1**
Derivatives used for economic hedge	**6**	**–**	**6**
	7	**–**	**7**

	As at December 31, 2016			
	Level 1	Level 2	Level 3	Total
	$ millions			
Assets				
Marketable securities held for trade	10	–	–	10
Financial assets available for sale (1)	–	253	–	253
Derivatives used for accounting hedge	–	17	–	17
Derivatives used for economic hedge	–	8	–	8
Call (put) options on ICL shares (Collar) (2)	–	–	74	74
	10	278	74	362
Liabilities				
Derivatives used for accounting hedge	–	1	–	1
Derivatives used for economic hedge	–	21	–	21
	–	22	–	22

(1) 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 will 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 YTH share in this period. The impact deriving from a possible and reasonable change in these data items, which are not observed, is not material.

(2) See Note 10B.

Note 33 – Financial Instruments (Cont.)

G. Fair value (Cont.)

(3) Data regarding measurement of the fair value of financial instruments at Level 2 and Level 3

Level 2

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

The fair value of currency options and options on fuel 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 of interest rates SWAP and fuel 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.

Level 3

The fair value of derivative financial assets at Level 3 is measured every quarter by an outside appraiser using the “Black” model. The “Black” model is an adaptation of the “Black and Scholes” model and is used to measure options. Measurement of the value is examined by professional parties in the Group. The Group believes that the fair values determined for measurement and/or disclosure are appropriate. The impact of different reasonable assumptions or measurement methods on the fair value is not expected to be significant.

Note 33 – Financial Instruments (Cont.)

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

	December 31	
	2017	**2016**
	Book value	
	$ millions	
Opening balance	**74**	81
Closing of the Financial Transaction *	**(25)**	(6)
Settlement of the adjustment component of the dividends	**5**	4
Total gains (losses) recognized in the statement of income:		
Exercised	**(5)**	(4)
Not exercised	**(2)**	(1)
Closing balance	**47**	74

* See Note 10B.

Note 34 – Events Occurring Subsequent to the Period of the Report

A. Regarding full repayment of the loan the Corporation provided to Kenon – see Note 11.

B. Regarding approval of an amendment to the trust indentures by the General Meetings of the holders of the debentures (Series 10 and 11) – see Note 16C(1)(c).

C. Regarding confirmation of the rating of the outstanding debentures and regarding a rating for issuance of new debentures – see Note 16E(1)(f).

D. Regarding a compromise agreement in connection with a derivative claim – see Note 20B(1)(e).

E. Regarding declaration of a dividend in the amount of $120 million – see Note 22E.

Israel Corporation Ltd.

Separate information provided in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970

Financial data from the consolidated financial statements relating to the Corporation on a separate-company basis as at December 31, 2017

Israel Corporation Ltd.

Separate information provided in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970

As at December 31, 2017

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.

Re: Special Report of the Auditors' with respect to Separate-Company Financial Data presented in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970

We have audited internal control components over financial reporting of Israel Corporation Ltd. and its subsidiaries (hereinafter – "the Corporation") as at December 31, 2017. These control components were determined as explained in the following paragraph. The Corporation's Board of Directors and Management are responsible for maintenance of effective internal control over financial reporting and for their evaluation of the effectiveness of internal control components over financial reporting attached to the Periodic Report for the above mentioned date. Our responsibility is to express an opinion on internal control components over the Corporation's financial reporting based on our audit.

Internal control components over financial reporting audited by us were determined in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Internal Control over Financial Reporting" and its amendments (hereinafter – "Audit Standard 104"). These components are: (1) controls at the level of the organization, including controls over the preparation and closing process of financial reporting and general controls of the information systems; (2) controls over cash management; (3) controls over management of investments; (4) controls over management of credit and hedging transactions (all of these will be referred to hereinafter as – "the Audited Control Components").

We conducted our audit in accordance with Auditing Standard 104. Pursuant to this Standard we are required to plan and perform the audit with the goal of identifying the Audited Control Components and to obtain a reasonable level of certainty whether these control components were effectively maintained in all material respects. Our audit included gaining an understanding of the internal control over financial reporting, identification of the Audited Control Components, evaluation of the risk that a significant weakness exists in the Audited Control Components, and examination and evaluation of the effectiveness of the planning and operation of those control components based on the assessed risk. Our audit, with respect to those control components, also included performance of other procedures such as those we considered necessary under the circumstances. Our audit referred solely to the Audited Control Components, as opposed to internal control over the overall significant processes in connection with the financial reporting and, therefore, our opinion relates solely to the Audited Control Components. In addition, our audit did not refer to reciprocal impacts between the Audited Control Components and those not audited and, therefore, our opinion does not take into account these possible impacts. We believe our audit provides a reasonable basis for our opinion in the context described above.

Due to built in limitations, internal control over financial reporting, in general, and components thereof, in particular, may not prevent or discover a misstatement. In addition, making of conclusions with respect to the future on the basis of evaluation of any present effectiveness whatsoever is exposed to risk that the controls will become

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inappropriate due to changes in circumstances or the extent of compliance with the policies or the procedures will change for the worse.

In our opinion, the Corporation effectively maintained, in all material respects, the Audited Control Components as at December 31, 2017.

We have also audited, in accordance with generally accepted auditing standards in Israel, the Corporation's consolidated financial statements as at December 31, 2017 and 2016 and for each of the three years in the period ended on December 31, 2017 and our report, dated March 22, 2018, included an unqualified opinion on those financial statements, as well as a direction of attention regarding contingent liabilities and claims filed against the associated company and its subsidiaries.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 22, 2017

Israel Corporation Ltd.
Financial Data on a Separate-Company Basis as at December 31, 2017
Data with respect to Financial Position

	As at December 31	
	2017	**2016**
	$ millions	
Current assets		
Cash and cash equivalents	**54**	97
Short-term deposits	**468**	622
Loan to investee company	**175**	–
Loan to related company	**240**	–
Dividend receivable	**–**	15
Other receivables and debit balances	**5**	1
Derivative instruments	**29**	28
Total current assets	**971**	763
Non-current assets		
Investments in respect of investee companies	**1,730**	1,670
Loans to wholly owned subsidiaries	**130**	117
Loan to related company	**–**	223
Derivate instruments	**64**	56
Total non-current assets	**1,924**	2,066
Total assets	**2,895**	2,829

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

Date of approval of the financial statements: March 22, 2018

The additional information attached to the separate-company data is an integral part thereof.

Israel Corporation Ltd.
Financial Data on a Separate-Company Basis as at December 31, 2017
Data with respect to Financial Position

	As at December 31	
	2017	**2016**
	$ millions	
Current liabilities		
Current maturities of non-current liabilities	**254**	358
Other payables and credit balances	**72**	64
Derivative instruments	**–**	10
Total current liabilities	**326**	432
Non-current liabilities		
Long-term loans and debentures	**1,554**	1,587
Derivatives instruments	**–**	4
Long-term balances	**2**	2
Total long-term liabilities	**1,556**	1,593
Total liabilities	**1,882**	2,025
Equity		
Share capital and premium	**326**	322
Capital reserves	**(117)**	(168)
Controlling shareholders reserve	**190**	190
Retained earnings	**614**	460
Total equity attributable to the shareholders of the parent company	**1,013**	804
Total liabilities and equity	**2,895**	2,829

The additional information attached to the separate-company data is an integral part thereof.

Israel Corporation Ltd.
Financial Data on a Separate-Company Basis as at December 31, 2017
Data with respect to Income

	Additional information	For the Year Ended December 31 2017	2016	2015
		$ millions		
Administrative and general expenses		**(7)**	(8)	(9)
Other income (expenses), net		**(9)**	(4)	82
Operating income (loss)		**(16)**	(12)	73
Financing expenses		**(136)**	(103)	(107)
Financing income		**68**	21	23
Financing expenses, net		**(68)**	(82)	(84)
Share in income (losses) of investee companies, net	4	**226**	(24)	299
Income (loss) before taxes on income		**142**	(118)	288
Tax benefit (taxes on income)		**(7)**	2	152
Income (loss) for the year attributable to the Corporation's shareholders		**135**	(116)	440

The additional information attached to the separate-company data is an integral part thereof.

Israel Corporation Ltd.
Financial Data on a Separate-Company Basis as at December 31, 2017
Data with respect to Comprehensive Income (Loss)

	For the Year Ended December 31		
	2017	2016	2015
	$ millions		
Income (loss) for the year attributable to the Corporation's shareholders	**135**	(116)	440
Components of other comprehensive income loss that after their initial recognition in comprehensive income were or will be transferred to the statement of income			
Effective portion of the change in fair value of cash flow hedges	**17**	1	(3)
Net change in fair value of cash flow hedges transferred to the statement of income	**(16)**	(1)	2
Taxes on income in respect of other components of other comprehensive income	**–**	3	–
Other comprehensive income (loss) in respect of investee companies, net	**47**	(35)	(50)
Total	**48**	(32)	(51)
Components of other comprehensive loss that will not be transferred to the statement of income			
Taxes on income in respect of other components of other comprehensive income	**–**	2	–
Other comprehensive loss in respect of investee companies, net	**(4)**	(19)	(23)
Total	**(4)**	(17)	(23)
Total other comprehensive loss for the year, net of tax	**44**	(49)	(74)
Total comprehensive income (loss) for the year attributable to the Corporation's owners	**179**	(165)	366

The additional information attached to the separate-company data is an integral part thereof.

Israel Corporation Ltd.
Financial Data on a Separate-Company Basis as at December 31, 2017
Data with respect to Cash Flows

	For the Year Ended December 31		
	2017	**2016**	**2015**
		$ millions	
Cash flows from operating activities			
Income (loss) for the year attributable to the Corporation's shareholders	**135**	(116)	440
Adjustments:			
Financing expenses, net	**68**	82	84
Share in losses (income) of investee companies, net	**(226)**	24	(299)
Capital loss, net	**3**	–	–
Loss (gain) from re-measurement to fair value of collar option	**7**	5	(82)
Share-based payment transactions	**–**	–	2
Taxes on income	**7**	(2)	(152)
	(6)	(7)	(7)
Change in receivables	**2**	(1)	(11)
	(4)	(8)	(18)
Income tax received (paid), net	**(4)**	208	(13)
Dividend received	**138**	77	154
Net cash provided by operating activities	**130**	277	123
Cash flows from investing activities			
Investments in investee and other companies	**–**	–	(34)
Short-term deposits and loans, net	**205**	(494)	531
Net proceeds from sale of shares of investee companies	**56**	–	–
Provision of loans to related company	**–**	(90)	(110)
Collection (provision) of long-term loans from/to investee companies	**(175)**	78	(77)
Interest received	**5**	3	4
Payment in respect of settlement of derivatives used for an economic hedge, net	**(11)**	(4)	(2)
Net cash provided by (used in) investing activities	**80**	(507)	312
Cash flows from financing activities			
Dividend paid	**–**	–	(300)
Receipt of long-term loans and issuance of debentures	**208**	365	394
Repayment of long-term loans and debentures*	**(369)**	(326)	(534)
Interest paid*	**(96)**	(82)	(89)
Receipt (payment) in respect of settlement of derivatives used for hedging, net	**3**	(1)	(1)
Net cash used in financing activities	**(254)**	(44)	(530)
Net decrease in cash and cash equivalents	**(44)**	(274)	(95)
Cash and cash equivalents at the beginning of the year	**97**	370	464
Effect of exchange rate fluctuations on balances of cash and cash equivalents	**1**	1	1
Cash and cash equivalents at the end of the year	**54**	97	370

* On December 31, 2016, payments of principal and interest in respect of the debentures, in the amount of about $60 million, were postponed in accordance with the trust indentures to January 1, 2017, since the contractual payment date was not a business day.

The additional information attached to the separate-company data is an integral part thereof.

Israel Corporation Ltd.
Financial Data on a Separate-Company Basis as at December 31, 2017
Additional Information

Note 1 – General

Set forth below is financial data taken from the Corporation's consolidated financial statements as at December 31, 2017, which are published as part of the Annual Report (hereinafter – "the Consolidated Financial Statements"), relating to the Corporation on a separate-company basis (hereinafter – "the Separate-Company Financial Data") and presented in accordance with Regulation 9C (hereinafter – "the Regulation") and the Tenth Addendum to the Securities Regulations (Periodic and Immediate Reports), 1970 (hereinafter – "the Tenth Addendum") regarding separate-company financial data of a company. The Separate-Company Financial Data should be read together with the consolidated financial statements.

In this separate-company financial data –

(1)	The Corporation	–	Israel Corporation Ltd.
(2)	ICL	–	Israel Chemicals Ltd. and its subsidiaries
(3)	ORL	–	Oil Refineries Ltd. and its subsidiaries
(4)	Subsidiaries	–	Companies, the financial statements of which are fully consolidated, directly or indirectly, with those of the Corporation.
(5)	Investee companies	–	Companies, where the Corporation's investment therein is included, directly or indirectly, in the financial statements using the equity basis of accounting.

Note 2 – Significant Accounting Principles Applied in the Financial Data on a Separate-Company Basis

The significant accounting policies detailed in the consolidated financial statements were applied consistently to all periods presented by the Corporation in the financial data on a separate-company basis, including the manner of classification of the financial data in the consolidated financial statements with the required changes as stated below:

A. Presentation of the financial data

(1) Data on the statement of financial position

This data includes information regarding amounts of the assets and liabilities included in the financial statements relating to the Corporation itself (not including investee companies), while providing detail based on the types of the assets and liabilities. In addition, as part of this data, information is included regarding a net amount, based on the consolidated financial statements, relating to the Corporation's shareholders itself, of the total assets less the total liabilities, in respect of investee companies, including goodwill.

Note 2 – Significant Accounting Principles Applied in the Financial Data on a Separate-Company Basis (Cont.)

A. Presentation of the financial data (Cont.)

(2) Data on the statement of income and the comprehensive income

This data includes information regarding amounts of the income and expenses included in the consolidated financial statements, broken down between income or expense and other comprehensive income, relating to the Corporation itself (not including investee companies), while providing detail based on the types of the revenues and expenses. In addition, as part of this data, information is included based on the consolidated financial statements relating to the Corporation's shareholders itself, of the total revenues less the total expenses in respect of the results of operations of investee companies.

(3) Data on the statement of cash flows

This data includes information regarding amounts of the cash flow included in the consolidated financial statements relating to the Corporation itself (not including investee companies), taken from the consolidated statement of cash flows, broken down by cash flows from current operating activities, cash flows from investing activities and cash flows from financing activities along with detail of their components. Cash flows in respect of current operating activities, investing activities and financing activities in respect of transactions with investee companies are presented separately on a net basis, as part of the related activities, in accordance with the nature of the transaction.

B. Transactions between the Corporation and Investee Companies

(1) Presentation

Intercompany balances within the Group and revenue and expenses deriving from intercompany transactions, which were eliminated as part of preparation of the consolidated financial statements, were presented separately from the balance in respect of the investee companies and the income in respect of the investee companies, together with similar balances with related parties.

(2) Measurement

Transactions executed between the Corporation and its subsidiaries are measured in accordance with the recognition and measurement principles provided in the International Financial Reporting Standards (IFRS), which outline the accounting treatment of these types of transactions executed with related parties.

Note 3 – Financial Instruments

A. Non-derivative financial assets

(1) Details with respect to linkage

	As at December 31, 2017		
	New Israeli shekels		
	Unlinked	Dollar	Total
	$ millions		
Current:			
Cash and cash equivalents	**1**	**53**	**54**
Short-term deposits	**445**	**23**	**468**
Loan to investee company	**–**	**175**	**175**
Loan to related company	**–**	**240**	**240**
Receivables	**5**	**–**	**5**
Non-current:			
Loans to wholly-owned subsidiaries*	**130**	**–**	**130**
Total non-derivative financial instruments	**581**	**491**	**1,072**

	As at December 31, 2016		
	New Israeli shekels		
	Unlinked	Dollar	Total
	$ millions		
Current:			
Cash and cash equivalents	59	38	97
Dividend receivable	15	–	15
Receivables	–	1	1
Short-term deposits	501	121	622
Non-current:			
Loans to related company	–	223	223
Loans to wholly-owned subsidiaries*	117	–	117
Total non-derivative financial instruments	692	383	1,075

* The repayment dates of the loans to wholly-owned subsidiaries have not yet been determined.

Note 3 – Financial Instruments (Cont.)

B. Non-derivative financial liabilities

(1) Composition

Current liabilities

	December 31	
	2017	**2016**
	$ millions	
Current maturities of long-term liabilities:		
Loans from financial institutions	**80**	87
Non-convertible debentures*	**174**	271
Total current maturities	**254**	358

Non-current liabilities

	December 31	
	2017	**2016**
	$ millions	
Debentures*	**1,229**	1,206
Loans from financial institutions	**579**	739
Total long-term liabilities	**1,808**	1,945
Less current maturities	**254**	358
Total non-current liabilities	**1,554**	1,587

* On December 31, 2016, payments of principal and interest in respect of the debentures, in the amount of about $60 million, were postponed in accordance with the trust indentures to January 1, 2017, since the contractual payment date was not a business day.

Note 3 – Financial Instruments (Cont.)

B. Non-derivative financial liabilities

(2) Classification based on currencies and interest rates

	Weighted average interest rate	As at December 31	
	12/31/17	2017	2016
	%	$ millions	
Non-current liabilities (including current maturities)			
Debentures			
In CPI-linked shekels	4.95	**697**	787
In unlinked shekels	4.10	**194**	288
In shekels linked to the dollar	5.25	**338**	131
		1,229	1,206
Loans from financial institutions			
Dollar loans bearing variable interest (1)	5.04	**110**	150
Dollar loans bearing fixed interest (2)	5.20	**469**	589
		1,808	1,945

(1) The interest in respect of the dollar liabilities bearing variable interest was determined on the basis of Libor + a margin of 3.25% – 4.1%.

(2) The interest in respect of the dollar liabilities bearing fixed interest is in the range of 4.5%–5.5%.

Note 3 – Financial Instruments (Cont.)

C. Derivative financial instruments

Details with respect to linkage:

	As at December 31, 2017			
	Foreign currency	New Israeli shekels		
	Dollar	Unlinked	CPI-linked	Total
	$ millions			
Derivative financial instruments for hedging	**(222)**	**88**	**163**	**29**
Derivative instruments for economic hedge	**(207)**	**–**	**222**	**15**

	As at December 31, 2016			
	Foreign currency	New Israeli shekels		
	Dollar	Unlinked	CPI-linked	Total
	$ millions			
Derivative financial instruments for hedging	(205)	99	112	6
Derivative instruments for economic hedge	(343)	–	333	(10)

Note 3 – Financial Instruments (Cont.)

D. Liquidity risk

Set forth below are the contractual repayment dates of financial liabilities, including an estimate of the interest payments. This disclosure does not include amounts with respect to which there are offset agreements.

	As at December 31, 2017					
	Book value	Projected cash flows	Up to 1 year	1–2 years	2–5 years	More than 5 years
	$ millions					
Non-derivative financial liabilities						
Other payables and credit balances	**28**	**28**	**28**	**–**	**–**	**–**
Debentures	**1,229**	**1,399**	**225**	**269**	**653**	**252**
Loans from banks*	**579**	**641**	**104**	**120**	**417**	**–**
Total	**1,836**	**2,068**	**357**	**389**	**1,070**	**252**

* Includes current maturities.

	As at December 31, 2016					
	Book value	Projected cash flows	Up to 1 year	1–2 years	2–5 years	More than 5 years
	$ millions					
Non-derivative financial liabilities						
Other payables and credit balances	24	24	–	–	–	–
Debentures*	1,206	1,368	322	194	637	215
Loans from banks*	739	807	114	372	311	10
Derivative instruments for economically hedging cash flows						
Interest SWAP contracts	11	26	9	8	9	–
Total	1,980	2,225	445	574	957	225

* Includes current maturities.

Note 3 – Financial Instruments (Cont.)

E. CPI and foreign currency risk

Sensitivity analysis

A strengthening at the rate of 5%–10% of the dollar exchange rate against the following currencies would have increased (decreased) the capital and the income or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2017.

	As at December 31, 2017 Impact on income or loss			
	10% increase	5% increase	5% decrease	10% decrease
	$ millions			
Non-derivative financial instruments				
Dollar/shekel	**29**	**17**	**(21)**	**(48)**
CPI	**(74)**	**(37)**	**37**	**74**
Derivative financial instruments				
Dollar/shekel	**(35)**	**(18)**	**21**	**43**
CPI	**38**	**19**	**(19)**	**(38)**

	As at December 31, 2016 Impact on income or loss			
	10% increase	5% increase	5% decrease	10% decrease
	$ millions			
Non-derivative financial instruments				
Dollar/shekel	29	17	(22)	(51)
CPI	(82)	(41)	41	82
Derivative financial instruments				
Dollar/shekel	(37)	(19)	22	46
CPI	44	22	(22)	(43)

Note 4 – Significant Contacts, Undertakings and Transactions with Investee Companies

Income (loss) from investee companies, net, includes the Corporation's share in the income of subsidiaries and associated companies.

(A)

	For the Year Ended December 31		
	2017	**2016**	**2015**
		$ millions	
Dividends from investee companies	**123**	92	154
Interest from investee companies, net	**2**	2	2

Subsequent to the date of the report, on February 13, 2018, the Board of Directors of ICL decided to distribute a dividend, in the amount of $70 million, about $0.054 per share. The dividend will be distributed on March 14, 2018. The Corporation's share in the dividend is about $33 million.

(B) In March 2017, ICL's Audit and Finance Committee and its Board of Directors and the Corporation's Finance Committee and its Board of Directors, approved a framework agreement for three years between the Corporation and ICL, whereby the Corporation may deposit, from time to time, up to $150 million in short-term deposits, in U.S. dollars or in NIS, subject to ICL's approval. The terms of the deposits, including the interest rates, will be determined on the date of the deposits. The deposits will be made in ICL without security. During the third quarter of 2017, the credit framework to be made to ICL was expanded to an amount of up to $250 million.

During 2017, the Corporation made loans, in the amount of $150 million, for a period of up to about 9 months and bearing interest at an annual rate of 1.51%–1.88%, which were repaid in November 2017. In November and December 2017, loans were made, in the amount of $175 million, for a period of 6 months and bearing interest at an annual rate of 1.72%–1.99%. As at December 31, 2017, the balance of the short-term loans was $175 million. Subsequent to the date of the report, ICL reduced the balance of its short-term loans in the amount of $125 million.

(C) Wholly-owned investee companies have issued capital notes to the Corporation. As at the date of the report, the capital notes, in the amount of about $130 million, are unlinked shekel capital notes that do not bear interest.

(D) From time to time, the wholly-owned Headquarters Companies of the Corporation that hold shares of ICL place liens on ICL shares in favor of credit taken out by the Corporation as part of financing agreements As at December 31, 2017, the Headquarters Companies placed liens in respect of credit taken out by the Corporation on about 45 million shares of ICL. Subsequent to the date of the report, the placed liens in respect of credit are about 15 million shares of ICL.

(E) The Corporation receives a dollar dividend declared by ICL and that is paid partly in NIS, according to the exchange rate on the effective date. The Corporation enters into a short-term hedging transaction with ICL in order to hedge the exposure to changes in the dollar/shekel exchange rate. The dividend paid to the Corporation based on the exchange rate on the effective date.

Note 4 – Significant Contacts, Undertakings and Transactions with Investee Companies (Cont.)

(F) Pursuant to the management agreement between ICL and Israel Corporation, the total management fees for 2017 amounted to about $1 million. The management agreement ended on December 31, 2017. Subsequent to the date of the report, a General Meeting of the shareholders of ICL was summoned to convene on April 24, 2018 in order to renew the agreement.

(G) For additional information regarding investee companies – see Notes 9 and 10 to the consolidated financial statements.