Israel Corporation Ltd.

Periodic Report

As at March 31, 2012

(UNAUDITED)

<u>**Contents**</u>

Report of the Corporation's Board of Directors

For the Three Months Ended March 31, 2012

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

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

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

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

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

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

This Directors' Report is submitted as part of the interim financial statements for the period ended March 31, 2012, and on the assumption that the reader is also in possession of the said financial statements. This report has been prepared in a condensed format for the aforementioned period on the assumption that the reader is also in possession of the periodic report for 2011.

FINANCIAL POSITION

– The total assets, as at March 31, 2012, amounted to about $15,245 million, compared with about $14,430 million, as at March 31, 2011, and compared with about $15,356 million, as at December 31, 2011.

– The current assets net of current liabilities, as at March 31, 2012 amounted to about $1,618 million, compared with current assets net of current liabilities of about $1,980 million as at March 31, 2011, and compared with about $414 million, as at December 31, 2011.

– The balance of the non-current assets, as at March 31, 2012 amounted to about $10,055 million, compared with about $9,208 million as at March 31, 2011, and compared with about $9,888 million, as at December 31, 2011.

FINANCIAL POSITION (Cont.)

– The non-current liabilities, as at March 31, 2012, amounted to about $7,640 million, compared with about $7,346 million, as at March 31, 2011, and compared with about $6,136 million, as at December 31, 2011.

– The total sales for the three months ended March 31, 2012 amounted to about $2,616 million, compared with about $2,579 million for the three months ended March 31, 2011.

– The total equity as at March 31, 2012 amounted to about $4,033 million and the total equity attributable to the owners of the Corporation amounted to about $2,292 million, compared with equity of $3,842 million and total equity attributable to the owners of the Corporation of $2,307 million as at March 31, 2011, and compared with total equity of about $4,166 and total equity attributable to the owners of the Corporation of about $2,465 million as at December 31, 2011.

CHANGES IN THE INVESTMENT PORTFOLIO

Chery Quantum Auto Limited (hereinafter – "Qoros")

In March 2012, the Corporation transferred, through a subsidiary, the amount of about $36 million to Qoros as part of the joint venture's business plan.

Subsequent to the date of the Report, in May 2012, the Corporation transferred, through a subsidiary, the amount of about $24 million to Qoros as part of the joint venture's business plan.

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

1. During 2011, in light of fulfillment of the circumstances provided in the arrangement for provision of a security net, the Audit Committee and Board of Directors of Israel Corporation decided to activate a security net and to inject $50 million into ZIM, the entire commitments of Israel Corporation as part of the security net. Concurrent with the decision of Israel Corporation to provide the security net, a decision was also made by the controlling shareholders that they will provide $50 million – their full share in the security net.

   During the period of the report, the full amount of the security net was transferred by the Corporation and the controlling shareholders to ZIM.

2. Further to that stated in Section 13, Various Events in the Corporation in the Year of Account and Thereafter, in the Report of the Board of Directors as at December 31, 2011, pursuant to the decision of the Corporation's General Meeting on November 3, 2009, the Corporation's Audit Committee and Board of Directors regarding provision of a framework of $50 million as a reserve amount. Subsequent to the date of the report, the Corporation transferred $50 million to ZIM, as a loan convertible into shares of ZIM.

Israel Chemicals Ltd. (hereinafter – "ICL")

In January 2012, the Corporation acquired 733,333 shares of ICL, constituting about 0.06% of ICL's issued share capital, for a consideration of about $8 million. After the acquisition, the Corporation holds about 52.3% of ICL's issued share capital.

CHANGES IN THE INVESTMENT PORTFOLIO (Cont.)

RESULTS OF OPERATIONS

The Corporation finished the period of the report with a loss attributable to the owners of the Corporation of about $82 million, compared with a loss of about $57 million in the corresponding period last year.

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

– ICL finished the period of the report with income of about $289 million, compared with income of about $280 million in the corresponding period last year.

– Oil Refineries Ltd. (hereinafter – “ORL”), which applies IFRS 9 (2010) in its financial statements, finished the period of the report with a loss of about $6 million, compared with a loss of about $13 million (after restatement – see Note 2E to the financial statements) in the corresponding period last year.

  Israel Corporation does not apply IFRS 9 (2010) in its financial statements. Without the impact of application of IFRS 9 (2010), ORL finished the period of the report with a loss of about $6 million, compared with a loss of about $27 million (after restatement) in the corresponding period last year.

– ZIM finished the period of the report, with a loss of about $163 million, compared with a loss of about $111 million in the corresponding period last year.

  ZIM’s loss for the period, without the impact of the debt arrangement on the results, amounted to about $161 million, compared with a loss of about $43 million in the corresponding period last year.

– I.C. Power Ltd. (hereinafter – “I.C. Power”) finished the period of the report with income of about $12 million, compared with income of about $11 million in the corresponding period last year.

– Tower Semiconductor Ltd. (hereinafter – “Tower”) finished the period of the report (in accordance with IFRS) with a loss of about $13 million, compared with a loss of about $9 million in the corresponding period last year.

– Better Place LLC (hereinafter – “Better Place”) finished the period of the report with a loss of about $51 million, compared with a loss of about $43 million in the corresponding period last year (after offset of interest to the preferred shareholders).

– Qoros finished the period of the report with a loss of about $19 million, compared with a loss of about $48 million in the corresponding period last year.

– The net financing expenses in the consolidated report in the period of the report amounted to about $99 million, compared with about $185 million in the corresponding period last year.

  The decrease in the net financing expenses stems mainly from a decrease in the revaluation to fair value of financial instruments and the impact of the debt arrangement in ZIM, whereas, on the other hand, this decrease was partly offset by an erosion of the shekel financial liabilities, mainly the debentures, and the impact of exchange rate differences**.**

RESULTS OF OPERATIONS (Cont.)

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

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

	Three months ended March 31	
	2012	**2011**
	$ Millions	
ICL	**151**	147
ORL	**(2)**	*(10)
ZIM	**(163)**	(111)
I.C. Power	**14**	11
Tower	**(4)**	(3)
Better Place	**(16)**	(14)
Qoros	**(9)**	(24)

* The contribution of ORL for the three-month period ended March 31, 2011, includes a loss of about $4 million stemming from a restatement of its results – see Note 2E to the financial statements.

Non-significant adjustment of the comparative data due to restatement of the financial statements of ORL

As part of the headquarters' work performed by ORL with respect to inventory levels, it was found that in 2002, at a time when ORL was still a government company, an agreement was first signed between it and the State of Israel relating to holding of emergency inventory of diesel fuel for transportation (hereinafter – "the Emergency Inventory"), in an amount presently standing at about 44 thousand tons. The agreement was revised in 2004 and 2005 and was extended or renewed since then from time to time, after undergoing certain revisions, and as at the date of the report it is effective up to the end of 2011 (hereinafter – "the Agreement"). The Agreement was not reflected in ORL's financial statements, including the statements included in the ORL's privatization prospectus from February 2007.

Pursuant to the Agreement, ORL undertook to hold in its possession an inventory of diesel fuel for transportation, as defined in the Agreement in such a manner that it can be supplied to the State, or to a party the State so instructs, immediately at the time of an emergency situation (as defined in the Agreement), and in such a case the State will pay ORL the dollar value of this inventory at the price at ORL's factory gate as it stood in November 2002, with certain adjustments (hereinafter – "the Fixed Price"). In consideration for holding the Emergency Inventory, the State pays ORL periodic payments as stipulated in the Agreement. In addition, at the end of the period of the Agreement an accounting will be made between the parties, where if the price of the inventory at ORL's factory gate on date of conclusion of the Agreement is higher than the Fixed Price, ORL will pay the difference to the State, whereas if the price of the inventory at ORL's factory gate on date of conclusion of the Agreement is lower than the Fixed Price, the State will pay ORL the difference.

ORL examined the accounting consequences of the Agreement and determined that since pursuant to the Agreement ORL is required to sell diesel fuel to the State at the Fixed Price, and if no sale as stated is made, at the end of the period of the Agreement, ORL will receive from or pay to the State in cash the difference between the price of the inventory at ORL's factory gate on the conclusion date of the Agreement and the Fixed Price, the Agreement as stated is covered by IAS 39 and it fulfills the definition of a derivative.

RESULTS OF OPERATIONS (Cont.)

Non-significant adjustment of the comparative data due to restatement of the financial statements of ORL (Cont.)

The Corporation examined the materiality of the error found in ORL's financial statements on the Corporation's financial statements with reference to the relevant reporting periods: the interim periods ended March 31, 2011 and June 30, 2011.

The Corporation examined based on quantitative and qualitative parameters the need to reissue revised consolidated financial statements of the Corporation.

Examination of the quantitative parameters indicated that the Corporation's share in the error constituted more than 5% of the net income (loss) (in absolute amounts) attributable to the Corporation's owners in the interim financial statements as at March 31, 2011, such that it was necessary to increase the loss attributable to the Corporation's owners for the three-month period ended March 31, 2011 by about $4 million.

In addition, since examination of the materiality of the error includes all the relevant considerations, quantitative and qualitative, the Corporation made a qualitative examination with reference to the following parameters:

- The categories affected – ORL is an associated company and, accordingly, the impact of correction of the error on the Corporation's financial statements is reflected only in the balance of the investment account and in the Corporation's share in the results of the associated company.
- Changes in income or in other trends in the financial statements – as a result of correction of the error, there was no significant change in the rate of the income or in other trends in the financial statements.
- The correction is not expected to have an impact on analysis of the financial statements by a user thereof since, as stated, the correction is in the "equity income" category only and its amount is low compared with the scope of the Corporation's activities and assets.
- Comparability – the error does not unfavorably impact the comparability with the past results of the Corporation or other companies operating in the industry.
- Turning income into a loss or vice-versa – the error does not turn income into a loss.
- Impact on compliance with financial covenants – the error does not impact the Corporation's compliance with financial covenants to which it is subject.
- Impact on financial ratios – the error does not impact the financial ratios that are capable influencing user of the statements.
- Impact on classification in the statement of financial position as between short-term and long-term – the error does not impact the classification of items in the statement of financial position as between short-term and long-term.
- Impact on managements' remuneration – there is no impact on the results in the periods of the correction with respect to managements' remuneration.

In addition, since the Corporation is a holding company and its results are subject to fluctuations and are affected by various companies operating in different sectors, the Corporation examined the quantitative threshold of the results with reference to the representative income attributable to the Corporation's owners that constitutes an acceptable index for examination of the results of holding companies similar in type to the Corporation. The representative income was calculated as the total income and losses of the Corporation in absolute values in the last 12 quarters divided by 12. The results of the examination indicate that the quantitative threshold of the results with reference to the representative income does not exist.

RESULTS OF OPERATIONS (Cont.)

Non-significant adjustment of the comparative data due to restatement of the financial statements of ORL (Cont.)

After examination of the quantitative and qualitative parameters, as stated above, notwithstanding actually meeting the quantitative threshold of the results with reference to the income attributable to the Corporation's owners in some of the relevant periods, the said error is not sufficient to impact the manner of making economic decisions and/or analysis of the said financial statements by the users thereof. Accordingly, the error involved does not require reissuance of revised consolidated financial statements of the Corporation. For additional details – see Note 2E to the financial statements.

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

ISRAEL CHEMICALS LTD.

ICL finished the period of the report with income of about $289 million, compared with income of about $280 million in the corresponding period last year.

The ICL Group's sales in the period of the report amounted to about $1,552 million, compared with about $1,528 million in the corresponding period last year – an increase of about 2%. The increase stems from an increase in the sale prices and from the first-time consolidation of the financial statements of companies and activities acquired during 2011. On the other hand, the increase was partly offset by a decrease in the quantities sold and from an unfavorable impact of changes in the exchange rates.

ICL's activities outside of Israel are mainly in the production of downstream products or those based on ICL's activities in Israel or in related areas. About 93% of ICL's output is sold outside of Israel. About 51% of ICL's sales in the period of the report derives from manufacturing performed outside of Israel.

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

In the first half of 2011, the trend of increasing cereal prices, which characterized 2010, continued, reaching a peak in September 2011. In the fourth quarter of 2011, there was a decline in the prices of rice and soya and a more moderate decline in the prices of corn and wheat. Since the beginning of 2012, the trend has reversed, mainly with respect to the soya and rice prices. The corn and wheat prices have maintained relative stability. It is noted that the cereal prices are still high compared with their prices in the past and compared with the production costs. The high level of prices ensures nice profits for the farmers[1].

The natural damage that occurred in 2011 in a number of locations throughout the world damaged agricultural products and thus gave rise to an increase in crop prices. Among the main natural damages were: a severe drought in Northern China, floods in Northern Australia, a severe drought in South Africa, mainly in Spain and Portugal, dryness in states in the southern portion of the United States and extreme cold in northern countries that adversely impacted the wheat harvest, dryness in South America that harmed the soya yield, a severe drought in Mexico and floods in Thailand.

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

ISRAEL CHEMICALS LTD. (Cont.)

Based on a report published by the U.S. Ministry of Agricultural in May 2012, an additional decline is expected with respect to the inventory of grains for the annual consumption to the level of 20.1% at the end of the 2011/2012 agricultural year, compared with 20.5% at the end of the preceding agricultural year and 22.3% at end of the 2009/2010 agricultural year. Most of the decline derives from a fall in the inventory of corn. A preliminary forecast for 2012/2013 indicates a small increase in the inventory of cereals (seeds) to 20.3%, stemming mainly from an expectation of an increase in the inventory of corn[2].

In the short run, the demand for fertilizers is volatile and is impacted by factors such as the weather in the main agricultural growing areas worldwide, changes in the scope of the planting of the main items grown, cost of the agricultural inputs, prices of the agricultural products and the bio-technological developments. Some of these items are impacted by subsidies and credit lines granted to farmers or producers of agricultural inputs in the various countries and environmental protection regulation. The changes in the exchange rates, legislation and policies in connection with international trade also have an impact on the worldwide supply, demand and consumption levels of fertilizers. Notwithstanding the volatility that may be caused in the short run due to the above-mentioned factors, in ICL’s estimation, the policy in most countries is to see to an orderly supply of high quality food to the residents, and as a result to encourage the agricultural production. Accordingly, the growth trend is expected to be maintained over the long run[3].

The first quarter of 2012 was characterized by low demand for potash and phosphates. The demand for potash was unfavorably impacted by delay in signing the contracts with China for the first half of 2012, high inventories in the United States and a reluctance to make advance orders in Europe. In addition, in the Indian markets, changes in the subsidy level for fertilizers caused an increase in the retail price of potash and phosphate fertilizers to the farmer. As a result, there was a decline in demand for these fertilizers in the Indian markets. Toward the end of 2011, due to an accumulation of inventories in the Indian ports, the Indian importers sought to put off the deliveries for the first quarter of 2012 by two to three months. In ICL’s estimation, the period of the agreement that was scheduled to end at the end of March will be extended by several months.

From the beginning of the second quarter, a recovery in demand in the fertilizers’ market is visible.

Towards the end of the first quarter of 2012, a number of potash producers signed sale contracts in China for the first half of 2012 and the shipments to this country were resumed at an accelerated pace. The new contracts were closed at a price of $470 per ton (CFR) – the same as the price in the second half of 2011.

ICL Fertilizers closed with its customers in China with respect to a quantity of 670 tons (including an optional 120 tons) for the first half of the year, on the same terms.

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

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

ISRAEL CHEMICALS LTD. (Cont.)

Brazil started the year with a high level of demand, however due to accumulation of inventories at the end of 2011, the total imports in the first quarter of all the producers were less than the prior year. The import quantities are expected to increase in the second and third quarters as the fertilizing season, which starts at the beginning of September, approaches[4].

Geological surveys performed by CPL, a subsidiary of ICL from the ICL Fertilizers Segment, indicate the existence of polyhalite layers (a mineral used in its natural form as an agricultural fertilizer, the trade name of which is polysulfate) in significant quantities of more than a billion tons located under the potash layer in one of ICL's mines. ICL Fertilizers has commenced initial sales of polyhalite in the European market. In addition, ICL Fertilizers has taken a number of marketing steps in order to promote sales of the product in additional target markets.

A resurgence is evident in the potash market due to the return of India to the market and the strong demand in Brazil, Asia and the United States. The fertilizer prices have started to rise moderately due to the revived demand.

The activities of ICL Industrial Products are affected, to a significant extent, by the level of activity in the electronics, construction, industrial, vehicle, oil drilling, furniture, pharmaceuticals, agricultural, textiles, and water treatment markets. The sale prices of bromine in China have remained unchanged compared with the fourth quarter of 2011. Nonetheless, subsequent to the date of the report, a trend of declining demand for bromine is China is visible, which is also accompanied by falling prices. The high level of demand for the segment's products that characterized most of 2011 moderated towards the end of year, mainly products designated for the market for electronic products. The first quarter of 2012 was characterized by a gradual recovery in demand as opposed to the slowdown that took place at the end of 2011. In any event, the demand in the quarter was lower than the demand in the first quarter of last year.

The relationship between the orders' backlog and the actual supply of printed circuits in the United States and Canada constitutes an indicator of the forecasted demand in the electronics market and an indirect indicator of the forecasted demand in the market for flame retardants. A ratio of more than 1 indicates an expectation of a high level of production in the future. During most of 2011, the ratio between the orders' backlog and the actual supply of printed circuits was less than 1. Commencing from January of this year, there has been a gradual increase in the ratio up to 1.05 in March 2012. This increase would seem to point toward an anticipated increase in the forecasted demand for flame retardants[5].

Most of the products of ICL Performance Products are affected to a significant extent by the world economic situation, competition in the target markets and fluctuation of prices in the fertilizers' market, which impact the prices of the segment's main raw materials, and fluctuations of the energy prices. In the first quarter of 2012, the credit crisis in Europe, instability in Northern Africa and the Middle East and the slow recovery of the markets in the United States continued to create uncertainty and to cause a slowdown in demand.

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[4] The estimates with respect to future trends included in the section constitute "forward-looking information" and there is no certainty if and when they will be realized, and at what rate. The said estimates may change due to fluctuations in the agricultural markets in Brazil, including, among other things, changes in the levels of supply and demand, severe weather changes, prices of the products, commodities and seeds, and they may also be impacted by actions taken by the governments, producers and consumers. There is also a possible impact of the situation in the financial markets, including changes in the exchange rates, the credit situation and interest costs.

[5] The estimates with respect to future trends included in the section constitute "forward-looking information" and there is no certainty if and when they will be realized, and at what rate. The said estimates may change due to fluctuations in the worldwide markets for printed circuits, including, among other things, changes in the levels of supply and demand, and product prices and they may also be impacted by actions taken by the governments, producers and consumers. There is also a possible impact of the situation in the financial markets, including changes in the exchange rates, the credit situation and interest costs.

ISRAEL CHEMICALS LTD. (Cont.)

In the present quarter, there was a decline in prices in the fertilizers' market, which impacted the competition in the market for phosphate-based products.

Marine transportation expenses constituted about 4% of ICL's total operating costs in the period of the report. In previous years, the marine transportation prices have been characterized by extreme volatility, where the trend is a decline in the Marine Prices index. The average index for the first quarter of 2012 was 867 points, constituting a decline of about 36% compared with the corresponding quarter last year.

The energy costs constituted about 9% of ICL's total operating costs in the period of the report. Starting from 2009, the energy prices have been on the rise. The fuel-based energy prices in the current quarter were higher than in the corresponding quarter last year. In addition, on January 26, the Yam Thetys Partnership gave notice of reduction of the quantity of gas it is supplying, due to depletion of gas in the well (for additional details – see Note 6F to the financial statements).

The gross profit rate in the period of the report was about 39% of the sales, compared with about 42% in the corresponding period last year. The decrease in the gross profit rate compared with the corresponding period last year stems mainly from a decrease in the quantities sold, an increase in the raw-material and energy prices and an increase in the other operating expenses. This decrease was partly offset by an increase in the selling prices and inclusion of the results of companies and activities acquired and consolidated for the first time in 2011.

The rate of the operating income out of the total sales was about 23%, compared with about 24% last year. The decrease in the marginal operating income stems mainly from the decrease in the gross profit, as stated above.

In the period of the report, there was a decrease in ICL's net financing expenses, in the amount of about $6 million, compared with the corresponding period last year, deriving mainly from income during the period from transactions in financial derivatives and revaluation of net short-term financial liabilities. On the other hand, there was an increase in the net interest expenses, deriving mainly from an increase the net financial liabilities and an increase in expenses for long-term employee benefits.

The taxes on income in the period of the report amounted to about $44 million, compared with taxes on income of about $61 million in the corresponding period last year. The rate of tax on the pre-tax income was about 13%, compared with about 18% last year.

<u>Other developments in the period of account and thereafter</u>:

1. In January 2012, the Government approved the proposal of the Ministry of Finance regarding the permanent solution for the water level of the Dead Sea and the royalties, which was approved on December 28, 2011, by ICL's Board of Directors. On January 3, 2012, Man, Nature and Law – the Israeli Society for Protection of the Environment and the Movement for Quality of the Governance in Israel, filed a petition in the Supreme Court sitting as the High Court of Justice, for issuance of a conditional order and a request for an interim order against the Government of Israel, the Ministry of Finance and Dead Sea Works, regarding the decision of the Government of Israel. The Court scheduled the petitions for hearing on May 23, 2012, and did not deem it correct to issue an interim order as requested by the petitioners. On May 24, 2012, the High Court of Justice summarily dismissed the petition of Man, Nature and Law – the Israeli Society for Protection of the Environment and the Movement for Quality of the Governance in Israel for issuance of a conditional order and issuance of an interim order against the Government of Israel, the Ministry of Finance and Dead Sea Works, in connection with the decision of the Government of Israel on January 1, 2012 with respect to the permanent solution for the water level at the Dead Sea and the royalties, and also charged them for expenses to the respondents. For additional details – see Section 8.8.20A to the Description of the Corporation's Business as at December 31, 2011.

ISRAEL CHEMICALS LTD. (Cont.)

2. On January 26, 2012, the Yam Thetys Partnership notified that it is forced to reduce the quantity of gas it is supplying due to depletion of the gas reserve. For additional details – see Section 8.8.20 of the "Description of the Corporation's Business" as at December 31, 2011 and Note 6F to the financial statements.

3. On May 10, 2012, the court extended the date for receipt of the position of the parties regarding the compromise offer to end the class action claim filed against a subsidiary in ICL's Industrial Products segment up to July 1, 2012.. For additional details – see Note 22B2b(iv).

4. On April 22, 2012, East Mediterranean Gas S.A.E. (hereinafter – "EMG"), with which Dead Sea Works (DSW) has signed an agreement for supply of natural gas to the power station it is considering to construct in Sdom, notified that it received a letter from Egyptian General Petroleum Corporation and Egyptian Natural Gas Holding Company ("EGPC/EGAS"), who are the suppliers of the natural gas to EMG, whereby, among other things, EGPC/EGAS request to cancel the gas supply agreement with EMG. In its notification, EMG contends that the cancellation notification it received, as stated, is not legally valid and lacks good faith and it continues to insist that EGPC/EGAS retract the cancellation notification. It is noted that in the agreement with EMG, DSW was granted an option up to June 30, 2012 to acquire an additional quantity of gas.

   ICL and its legal advisors are examining EMG's notification and ICL's possible courses of action vis-à-vis EMG based on the agreement between them. For additional details – see Section 8.8.20A to the Description of the Corporation's Business as at December 31, 2011.

5. ICL Fertilizers presently operates a power station for production of electricity at Sdom and also purchases electricity from Israel Electric Company. Subsequent to the date of the report, the Board of Directors of ICL authorized its management to carry on negotiations for purposes of signing an agreement with an outside contractor for construction of a new power station at Sdom that will replace the existing power station, subject to certain conditions provided. The new power station, if constructed, will be a cogeneration plant planned to operate on natural gas and to produce about 250 megawatts of electricity and up to 330 tons of steam per hour, which will supply the entire electricity and steam requirements of the production facilities on the Sdom site in the upcoming years.

OIL REFINERIES LTD.

ORL, which applies IFRS 9 (2010) in its financial statements, completed the period of the report with a loss of about $6 million, compared with a loss of about $13 million (after restatement) in the corresponding period last year. Israel Corporation does not apply IFRS 9 (2010) in its financial statements. Without the impact of IFRS 9 (2010), ORL finished the period of the report with a loss of about $6 million, compared with a loss of about $36 million (after restatement) in the corresponding period last year.

The total sales in the period of the report totaled about $2,448 million, compared with about $$2,058 million in the corresponding period last year. The increase in the total sales derived mainly from an increase in the average price of the fuel products. The average price per ton of the main products' basket in the Mediterranean Sea area that is roughly the same as the basket produced by ORL was about $962 in the period of the report, compared with about $866 in the corresponding period last year.

The operating income in the period of the report amounted to about $42 million, compared with about $11 million in the corresponding period last year. The increase in the operating income derived mainly from an increase in the accounting margins and an increase in other income, which was offset by an increase in the production expenses and a decrease in the petrochemical margins.

OIL REFINERIES LTD. (Cont.)

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

	January–March	
	2012	**2011**
Neutralized margin	29.4	25.3
Less –		
Impact of application of method for recording derivatives (under IFRS)	(1.5)	(19.7)
Impact of timing differences of purchases and sales	16.1	17.3
Provision for decline in value of inventory as at the date of the report	3.0	–
Accounting margin	**47.0**	**22.9**

The net financing expenses, without the impact of IFRS 9 (2010), the period of the report amounted to about $41 million, compared with financing income of about $45 million in the corresponding period last year. The financing expenses decreased in the period of the report mainly due to revaluation to fair value of the financial derivatives and an increase in income from the securities' portfolio. This decrease was offset by an increase in the interest on the loans, dentures and short-term financing.

As at March 31, 2012, ORL was not in compliance with the minimum adjusted EBITDA it is required to maintain in respect of long-term loans in the construction period a project for construction of a facility for production of clean fuel (hereinafter – "the Facility") and, therefore, ORL reclassified the loans from long-term to short-term due to non-compliance with the financial ratios. Subsequent to the date of the report, ORL received letters of waiver from the financing banks according to which ORL will not be required to comply with the covenant of minimum adjusted EBITDA for the first quarter of 2012.

For this quarter, ORL will pay additional interest at an annual rate of 1.15%.

In addition, subsequent to the date of the report, negotiations are underway between ORL and the financing banks to obtain exemptions and/or determine new financial covenants up to completion of the project.

ORL believes that it is probable that it will comply with all the conditions to prevent a call for early repayment due to breach of the covenants for at least 12 months from March 31, 2012.

Nonetheless, in accordance with IAS 1, since the deviation from the covenants occurred at the end of the reporting period, ORL is required to reclassify the long-term loans and liabilities to short-term, even though the relevant creditors did not actually demand calling the debt for immediate repayment and despite the fact that ORL received waivers and/or amendments for the financial covenants subsequent to the date of the report. See Note 5.D.1 to the financial statements.

Subsequent to the period of the report, on May 6, 2012, S&P notified ORL with respect to a reduction of its rating to ilBBB+ from ilA–, with a stable rating outlook.

The Egyptian Gas Company EGPC/EGAS cancelled the agreement for supply of gas to ORL – see Note 6H to the financial statements.

ZIM INTEGRATED SHIPPING SERVICES LTD.

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

	Three months ended March 31	
	2012	**2011**
	$ Millions	
Revenues from shipping and accompanying services	**865**	912
Costs of shipping and accompanying services	**(905)**	*(843)
Operating depreciation	**(39)**	(40)
Gross profit (loss)	**(79)**	29
Other operating expenses, net	**1**	2
Administrative and general expenses	**(38)**	(38)
Operating loss	**(116)**	(7)
Financing expenses, net	**(42)**	*(105)
Share in income of associated companies, net	**1**	7
Taxes on income	**(5)**	*(2)
Loss for the period	**(162)**	(107)
Attributed to:		
Holders of non-controlling interests	**1**	4
Loss for the period attributed to the owners of the Corporation	**(163)**	(111)
	(162)	(107)

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

	Three months ended March 31	
	2012	**2011**
	$ Millions	
Cash provided by (used in) operating activities	**(82)**	***31**
Cash used in investing activities	**(2)**	**(35)**
Acquisition of ships and equipment, property, plant and equipment and intangible assets	**(4)**	**(8)**
Proceeds from sale of ships and equipment, property, plant and equipment and intangible assets	**4**	**3**
Cash provided by (used in) financing activities	**6**	**(130)**
Total depreciation, amortization and impairment in value	**(48)**	**(45)**

* Reclassified.

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

	As at March 31	
	2012	**2011**
	$ Millions	
Total financial liabilities	**2,555**	2,682
Total monetary assets	**121**	492
Total equity attributable to the owners	**193**	629
Total assets	**3,416**	3,956
Payments on account of construction of ships	**255**	255

ZIM INTEGRATED SHIPPING SERVICES LTD. (Cont.)

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

	Three Months Ended March 31 2012
	$ Millions
Balance as at January 1, 2012	351
Loss for the period	(163)
Reserve in respect of transactions with controlling shareholders	3
Other comprehensive income for the period	2
Balance as at March 31, 2012	**193**

Brief description of ZIM's results:

The loss in the period of the report attributable to ZIM's owners, amounted to about $163 million, compared with a loss of about $111 million in the corresponding period last year.

ZIM's revenues in the period of the report amounted to about $865 million, compared with about $912 million in the corresponding period last year – a decrease of about 5%. The decrease in the total revenues stems, mainly, from a decrease in the revenues per container and income from the subsidiaries, offset by revenues from uncompleted voyages and other revenues. In the period of the report, the quantity shipped increased compared with the corresponding period last year by about 3%, from about 555 thousand containers to about 570 thousand containers. On the other hand, the average shipping price per container decreased by 9% from about $1,360 per container to about $1,236 per container.

In the period of the report, ZIM's operating expenses amounted to about $905 million, compared with about $843 million in the corresponding period last year – an increase of about 7%. The increase in the operating expenses stems mainly from an increase in the fuel expenses, in the amount of about $63 million, stemming mostly from an increase in the fuel prices, and from an increase in the ship leasing expenses, in the amount of about $26 million, and was offset by a decrease in expenses of the subsidiaries and other expenses, in the amount of about $34 million.

In the period of the report, the administrative and general expenses increased by about 2%.

ZIM's operating loss in the period of the report amounted to about $116 million, compared with a loss of about $7 million in the corresponding period last year. The increase in the operating loss stems mainly from an increase in the operating expenses, in the amount of about $62 million, and a decrease in revenues, in the amount of about $47 million.

ZIM's EBITDA[6] in the period of the report amounted to a negative about $69 million, compared with EBITDA of about $38 million in the corresponding period last year.

ZIM's net financing expenses in the period of the report decreased by about $63 million compared with the corresponding period last year. The decrease in the financing expenses stems mainly from a change in the revaluation of derivatives in respect of the debt arrangement.

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

ZIM INTEGRATED SHIPPING SERVICES LTD. (Cont.)

Other developments in the period of the report and thereafter:

1. On January 2, 2012, S&P Maalot (hereinafter – "Maalot") notified ZIM that the rating of ilBB– with a negative rating outlook remains unchanged despite obtaining the waivers or revisions of the financial covenants up to December 31, 2011. Subsequent to the period of the report, on May 6, 2012, Maalot notified ZIM with respect to a reduction of its rating to ilB (from ilBB–), with a negative rating outlook.

2. As part of the Arrangements Law 2011-2012 it was decided to cancel the exemption provided in Section 3(7) of the Law, to the extent it addresses marine shipping. Cancellation of the exemption will enter into effect at the end of two months from the publication date of a class exemption with respect to operating arrangements covering international shipping or on January 1, 2012 – whichever occurs first. The Minister of Finance was authorized to postpone the said date (January 1, 2012) for periods of six months each time until a class exemption is promulgated, as stated. On September 22, 2011, the Minister of Finance gave notice of a six-month postponement until July 1, 2012, and on April 30, 2012 he gave notice of an additional postponement until January 1, 2013. According to that stated in the Arrangements Law, the Supervisor of Restrictive Business Practices was authorized to provide a class exemption with respect to an operating arrangement covering international oversea shipping involving one of the following – (A) adjustment of the average shipping capacity on every vessel in response to fluctuations in supply and demand in the market; (B) joint operation of shipping services or of ports and operating-related services as stated; (C) accompanying activities required for realization of the activities stated in Sections (A) and (B) above. On May 15, 2012, the Restrictive Business Practices Authority published a draft of a class exemption for review and comment. The impact of the class exemption on ZIM's activities is being studied by ZIM's professional persons and by the outside legal advisors. In any event, the impact, if any, will be finally clarified only after publication of the exemption in its final and binding form.

3. Conversion of acquisition of 4 ships with a capacity of TEU 10,000 to acquisition of 4 ships with a capacity of TEU 8,800 in their place.

   In January 2012, subsidiaries of ZIM signed agreements wherein the 4 existing agreements with the shipyard for construction of 4 ships with a capacity of TEU 10,000 (3 ships were ordered in an agreement from March 2007 and another ship was ordered upon exercise of an option granted in an agreement from July 2006 – for details with respect to these ship acquisitions – see Sections 9.22.8 and 9.22.9 of the Description of the Corporation's Business) were cancelled, and agreement was reached regarding acquisition of 4 ships with a capacity of TEU 8,800 each from the shipyard (an unrelated third party). For additional details – see Section 9.22.7 of the Description of the Corporation's Business.

4. ZIM is involved as a respondent in a request for approval to file a derivative claim submitted to the District Court (for the Central District) by a shareholder that alleges to hold 6 shares of Israel Corporation. During the period of the report, a request was submitted to the Court to approve a compromise between the parties to the said claim, which was approved by the Court on May 20, 2012, however it is still subject to approvals for its completion, in accordance with the provisions of the compromise agreement. For additional details – see Note 6C to the financial statements.

5. For details regarding investment of a "security net" (in the amount of $100 million) by Israel Corporation and a controlling shareholder in ZIM – see detail above in the Section "Changes in the Investment Portfolio".

6. For details regarding provision of the amount of $50 million to ZIM by Israel Corporation – see detail above in the Section "Changes in the Investment Portfolio".

ZIM INTEGRATED SHIPPING SERVICES LTD. (Cont.)

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

7. In light of the worsening of the situation in the shipping sector and its adverse impact on ZIM's results, during the period of the report ZIM completed formulation of an updated long-term business plan – for details see Section 9.18 to the Description of the Corporation's Business Report for 2011.

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

   The year 2011 was characterized by falling shipping prices and rising fuel prices – external factors having a significant impact on ZIM's activities and forecasts. As a result of the said changes, ZIM was required during 2011 to request from the relevant financing banks to receive waivers of or revisions to the relevant financial covenants. Accordingly, in the third quarter of 2011, the financial covenants were revised. Further to that stated above, ZIM estimated during 2011 that the financial results for 2011 would not conform to the levels provided in EBITDA-based financial covenants stipulated in the agreements with the relevant banks. In light of that stated above, ZIM contacted the relevant banks in order to receive waivers of and/or revisions to the financial covenants.

   During the period of the report, agreements were signed with the relevant banks that documented the agreements reached with the banks regarding the financial covenants.

   For detail of the main financial covenants ZIM is obligated to fulfill based on the financing agreements after the Rehabilitation Plan and the agreements reached as detailed above – see Section 9.19.7 of the Description of the Corporation's Business for 2011.

   The conditions and financial covenants, as stated, include update[7] of some of the conditions and financial covenants provided in the Rehabilitation Plan with reference to the same covenant, and are in addition to various other conditions included in each of the agreements under the Rehabilitation Plan dealing with ZIM's other obligations.

I.C. POWER LTD.

I.C. Power finished the period of the report with net income of about $12 million, compared with income of about $11 million in the corresponding period last year. After eliminating the financing expenses to Israel Corporation, the net income for the period amounted to about $14 million, compared with income of about $11 million in the corresponding period last year.

I.C. Power's total revenues in the period of the report amounted to about $132 million, compared with about $129 million in the corresponding period last year.

I.C. Power's proportionate EBITDA in the period of the report (the proportionate amount of the EBITDA of each of the investee companies) amounted to about $44 million, about the same as in the corresponding period last year.

As at the date of the report, I.C. Power's net consolidated debt (excluding the loan from Israel Corporation) amounted to about $824 million, compared with a net consolidated debt of about $351 million in the corresponding period last year.

[7] Two subsidiaries of ZIM (shipping companies) held jointly by ZIM and Ofer Shipping Ltd. (50/50) are included in the undertaking with the financing banks for change of the financial conditions, and the said undertakings was approved by ZIM's Audit Committee and Board of Directors and the Corporation's Audit Committee and Board of Directors.

I.C. POWER LTD. (Cont.)

As at the date of the report, I.C. Power's net proportionate debt (the net debt of I.C. Power plus its proportionate share in the net debt of each of the investee companies) amounted to about $732 million, compared with a net proportionate debt of about $376 million in the corresponding period last year.

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

1. An increase in the selling prices of Edegel S.A.A., an associated company, contributed to the improvement in I.C. Power's share in the results of investee companies.

2. First-time consolidation of a subsidiary in Chile.

3. Increase in the maintenance and depreciation expenses on the Kallpa site.

4. Decrease in the results in El Salvador as a result of a transition of the country's electricity system to sales based on the marginal cost.

Other developments in I.C. Power

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

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

3. The Egyptian Gas Company EGAS/EGPC cancelled the agreement for supply of gas to EMG, O.P.C.'s gas supplier – see Note 6.G to the financial statements.

4. Projects under construction:

   A. In 2009, Kallpa Generacion S.A. (Peru) (hereinafter – "Kallpa"), a subsidiary of Inkia, started a project for conversion of its thermal plant to running based on a combined cycle. The cost of the project is estimated at about $400 million. As at March 31, 2012, Kallpa had invested about $335 million in the project. As at the signing date of the report, construction of the plant has almost been completed and the facility was in the test run stage. Acceptance tests are expected to be conducted in the upcoming weeks and commercial operation is expected during the second half of the year.

   B. In 2010, O.P.C. commenced construction of a power station having a capacity of about 440 megawatts in Israel. As at March 31, 2012, OPC had invested about $345 million in the project. Up to the publication date of this report, about 85% of the project had been completed. Netivei Gas completed connection of the power station to the national gas distribution network and it is now waiting for the "gas permit". At the same time, Israel Electric Company is almost finished constructing the power line that connects the power station to the national electricity network. Test runs of the main items are expected to begin in the third quarter of the year.

   C. In November 2011, Aguila Del Cerro (hereinafter – "CDA"), a subsidiary of Inkia, signed an agreement for construction of a hydroelectric power station. As at March 31, 2012, CDA had invested about $49 million in the project.

TOWER SEMICONDUCTOR LTD. (hereinafter – "Tower")

In the period of the report, Tower's sales amounted to about $168 million, compared with about $121 million in the corresponding period last year – an increase of about 39%. The gross profit in the period of the report amounted to about $23 million, compared with about $31 million in the corresponding period last year.

Tower finished the period of the report (according to IFRS) with a loss of about $13 million, compared with a loss of about $9 million in the corresponding period last year.

The net financing expenses (according to IFRS) in the period of the report amounted to about $13 million, compared with about $23 million in the corresponding period last year.

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

Better Place's net loss in the period of the report, including interest to the holders of the preferred shares, amounted to about $67 million, compared with a loss of about $54 million in the corresponding period last year. The financial statements of Better Place for the period of the report are attached to the Corporation's financial statements.

QOROS

As at the date of the report, Qoros had not yet commenced its commercial activities. The loss of Qoros in the period of the report amounted to about $19 million, compared with a loss of about $48 million in the corresponding period last year. Commencing from the fourth quarter of 2011, Qoros recognizes costs in respect of development activities as an intangible asset. The financial statements of Qoros for the period of the report are attached to the Corporation's financial statements.

SOURCES OF FINANCING FOR THE CORPORATION AND THE HEADQUARTERS COMPANIES

As at March 31, 2012, the total financial liabilities of the Corporation and of the wholly owned and controlled headquarters companies (hereinafter – "the Headquarters Companies") amounted to about $2,369 million. The fair value of interest rate, currency and index SWAP transactions, mainly in respect of the debentures, economically reduces the liabilities by the amount of about $142 million.

As at the date of the report, the investments of the Corporation and of the Headquarters Companies in liquid assets amounted to about $527 million. The investments are mainly in short-term deposits.

The net debt of the Corporation and of the Headquarters Companies as at the date of the report was about $1,700 million.

In the period of the report, the Corporation renewed loans in the amount of about $200 million, and paid current maturities of loans and debentures in the amount of about $326 million.

Subsequent to the period of the report, the Corporation received an additional loan, in the amount of about $50 million, for a period of 3 years.

On January 15, 2012, S&P Maalot confirmed a rating of ilA+/stable for the Corporation and a rating of ilA+/stable for the Corporation's debenture series (3–9).

As at March 31, 2012, the amount of the exposure of the Headquarters Companies to a decline in the shekel exchange rate against the dollar was about $165 million. The amount of the exposures to a rise in the Consumer Price Index was about $115 million and to an increase in the Libor interest rate about $300 million.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT

Corporation's Consolidated Derivative Positions as at March 31, 2012

	Recognized for Accounting Purposes				Not Recognized for Accounting Purposes			
	Par Value		Fair Value		Par Value		Fair Value	
	Long	Short	Long	Short	Long	Short	Long	Short
	Millions of Dollars							
Hedging changes in variable LIBOR interest rate on dollar loans								
Up to one year								
Collar transactions	–	–	–	–	50	–	(1)	–
IRS transactions	–	–	–	–	100	–	(2)	–
More than one year								
CAP options	–	–	–	–	396	–	–	–
FLOOR options	–	–	–	–	396	–	(15)	–
Collar transactions	–	–	–	–	320	–	(8)	–
IRS transactions	128	–	(10)	–	1,573	48	(59)	5
Hedging changes in exchange rate and interest rate on loans								
More than one year								
SWAP to dollar liability with variable interest from index-linked liability with fixed interest	–	–	–	–	–	952	–	202
SWAP to dollar liability with variable interest from shekel liability with fixed interest	–	–	–	–	–	205	–	(1)
SWAP to dollar liability with fixed interest from index-linked liability with fixed interest	–	–	–	–	–	10	–	2
SWAP to dollar liability with fixed interest from shekel liability with fixed interest	–	179	–	1	–	92	–	2
SWAP to shekel liability with variable interest from shekel liability with fixed interest	–	–	–	–	–	70	–	2

Long – receipt in dollars against the counter currency.

Short – payment in dollars against the counter currency.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

Corporation's Consolidated Derivative Positions as at March 31, 2012

	Recognized for Accounting Purposes				Not Recognized for Accounting Purposes			
	Par Value		Fair Value		Par Value		Fair Value	
	Long	Short	Long	Short	Long	Short	Long	Short
	Millions of Dollars							
Hedging changes in the CPI-linked interest rate								
Up to one year								
Forward contract for acquisition of index differentials	–	–	–	–	24	–	–	–
More than one year								
Forward contract for acquisition of index differentials	–	–	–	–	78	–	–	–
Up to one year								
Transactions for fixing index-linked interest rate	–	–	–	–	130	–	(11)	–
Other derivatives in a subsidiary								
More than one year								
Option for early repayment of debentures	–	–	–	–	401	–	135	–
Option issued for lease price of ships	–	–	–	–	–	–	–	(5)
Hedging changes in exchange rates on cash flows								
Up to one year								
Euro/Dollar								
Forward contract	31	–	–	–	254	–	–	–
Call options	–	–	–	–	48	–	–	–
Put options	–	–	–	–	48	–	2	–
Shekel/Dollar								
Forward contract	48	–	(1)	–	–	277	–	1
Call options	–	–	–	–	–	623	–	(7)
Put options	–	–	–	–	–	625	–	10
Yen/Dollar								
Forward contract	–	–	–	–	23	–	–	–
Call options	–	–	–	–	21	–	1	–
Put options	–	–	–	–	21	–	–	–

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

Corporation's Consolidated Derivative Positions as at March 31, 2012

	Recognized for Accounting Purposes				Not Recognized for Accounting Purposes			
	Par Value		Fair Value		Par Value		Fair Value	
	Long	Short	Long	Short	Long	Short	Long	Short
	Millions of Dollars							
Other Forward Contracts								
Dollar / British pound – up to one year	–	–	–	–	–	25	–	–
British pound / euro – up to one year	–	–	–	–	52	–	–	–
Shekel / Chinese yuan – up to one year	5	–	–	–	–	–	–	–
Chinese yuan / dollar – up to one year	–	–	–	–	–	66	–	3
Chinese yuan / dollar – more than one year	–	–	–	–	–	67	–	2
Transactions for hedging fuel prices								
Forward contract up to one year	31	–	–	–	29	–	–	–
Collar transactions up to one year	–	–	–	–	189	–	–	–
Transactions hedging energy prices and shipping fees								
Up to one year	–	–	–	–	46	–	(12)	–
More than one year	–	–	–	–	20	–	(3)	–

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to changes in shekel interest linked to the CPI:

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 1%	Rise of 0.5%		Fall of 0.5%	Fall of 1%
Instrument Type					
Long-term loans from banks	27	14	(376)	(15)	(30)
Debentures	54	27	(1,662)	(28)	(57)
SWAP transactions from index to dollar*	(39)	(20)	204	20	41
Hedge transaction fixing CPI-linked interest*	12	6	(11)	(7)	(14)
Total	**54**	**27**	**(1,845)**	**(30)**	**(60)**

Sensitivity to changes in shekel interest:

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 1%	Rise of 0.5%		Fall of 0.5%	Fall of 1%
Instrument Type					
Debentures	9	5	(417)	(5)	(10)
SWAP transactions from shekel to variable dollar*	(13)	(6)	5	7	13
Total	**(4)**	**(1)**	**(412)**	**2**	**3**

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

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to changes in Libor interest:

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 1%	Rise of 0.5%		Fall of 0.5%	Fall of 1%
Instrument Type					
Derivatives in respect of debt arrangement in subsidiary	(1)	(1)	35	–	1
Long-term loans from banks	31	16	(1,005)	(16)	(33)
Debentures	29	15	(633)	(15)	(31)
SWAP transactions from index and shekel to fixed dollar*	4	2	5	(2)	(4)
IRS transactions variable to fixed*	28	14	(66)	(14)	(26)
COLLAR transactions*	10	5	(25)	(5)	(8)
Total	**101**	**51**	**(1,689)**	**(52)**	**(101)**

Sensitivity to changes in the CPI:

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Long-term deposits and loans	7	4	74	(4)	(7)
Long-term bank loans	(38)	(19)	(390)	19	38
Debentures	(166)	(83)	(1,662)	83	166
SWAP transactions from index to variable dollar*	124	62	204	(62)	(124)
Acquisition of index differentials*	12	6	1	(6)	(12)
Total	**(61)**	**(30)**	**(1,773)**	**30**	**61**

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

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to changes in exchange rates:

Shekel/USD

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Cash and cash equivalents	(8)	(4)	79	4	8
Short-term deposits and loans	(7)	(4)	74	4	7
Trade receivables	(8)	(4)	76	4	8
Other receivables and debits	(11)	(6)	118	6	13
Long-term deposits and loans	(27)	(14)	274	14	27
Credit from banks and others	1	–	(5)	–	(1)
Trade and other payables	30	15	(301)	(15)	(30)
Other payables and credits	24	12	(243)	(12)	(25)
Liabilities for employee rights	6	3	(66)	(3)	(7)
Long-term bank loans	37	19	(394)	(21)	(43)
Debentures	195	101	(2,107)	(110)	(230)
SWAP transactions from shekel to dollar	(159)	(84)	207	92	195
Currency options	(49)	(19)	2	22	53
Forward transactions	(22)	(13)	1	13	28
Embedded derivative	(1)	–	1	–	1
Transaction fixing interest	1	1	(11)	(1)	(1)
Total	**2**	**3**	**(2,295)**	**(3)**	**3**

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to changes in exchange rates: (Cont.)

EURO/USD

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Cash and cash equivalents	(9)	(4)	90	5	9
Short-term deposits and loans	(1)	(1)	14	1	1
Trade receivables	(43)	(22)	438	22	44
Other receivables and debits	(2)	(1)	20	1	2
Long-term receivables and debits	(2)	(1)	23	1	3
Credit from banks and others	5	2	(48)	(2)	(5)
Trade and other payables	21	11	(220)	(11)	(22)
Other payables and credits	16	8	(165)	(8)	(17)
Long-term loans from banks	26	13	(261)	(13)	(26)
Currency options	5	2	1	(2)	(3)
Forward transactions	31	15	–	(14)	(26)
Embedded derivative	(2)	(1)	4	1	2
Total	**45**	**21**	**(104)**	**(19)**	**(38)**

£\USD

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Short-term deposits and loans	(1)	(1)	10	1	1
Trade receivables	(8)	(4)	81	4	8
Credit from banks and others	1	–	(9)	–	(1)
Trade and other payables	2	1	(18)	(1)	(2)
Other payables and credits	2	1	(19)	(1)	(2)
Forward transactions	(4)	(2)	–	2	4
Total	**(8)**	**(5)**	**45**	**5**	**8**

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to changes in exchange rates: (Cont.)

Yen\USD

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Trade receivables	(2)	(1)	19	1	2
Currency options	2	1	1	(1)	(1)
Forward transactions	2	1	–	(1)	(3)
Total	**2**	**1**	**20**	**(1)**	**(2)**

Rial\USD

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Trade receivables	(1)	–	9	–	1
Trade and other payables	1	–	(6)	–	(1)
Total	**–**	**–**	**3**	**–**	**–**

Chinese Yuan\USD

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Cash and cash equivalents	(2)	(1)	17	1	2
Trade receivables	(2)	(1)	21	1	2
Trade payables	1	–	(7)	–	(1)
Other payables and credits	1	–	(7)	–	(1)
Forward transactions	(12)	(6)	5	7	15
Total	**(14)**	**(8)**	**29**	**9**	**17**

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to changes in exchange rates: (Cont.)

Canadian dollar/USD

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Trade receivables	(2)	(1)	20	1	2
Trade and other payables	2	1	(20)	(1)	(2)
Total	–	–	–	–	–

Various currencies

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Forward transactions					
British pound / euro	(2)	(1)	–	1	2
Net exposure					
Bolivian peso / dollar	1	–	(6)	–	(1)
Dominican peso / dollar	(1)	–	7	–	1
Peruvian Sual / dollar	(1)	(1)	14	1	2

Sensitivity to other changes

Hedging marine shipping and energy

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Hedging transactions on marine shipping and energy prices	**5**	**2**	**(16)**	**(2)**	**(5)**

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to other changes (Cont.)

Sensitivity to changes in fuel prices:

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 50%	Rise of 20%		Fall of 20%	Fall of 50%
Instrument Type					
Hedging transactions on fuel prices	30	14	–	(14)	(30)
Collar transactions	44	16	–	(14)	(42)
Total	**74**	**30**	**–**	**(28)**	**(72)**

UPDATE REGARDING DESCRIPTION OF THE CORPORATION'S BUSINESS

Set forth below are significant updates and/or changes in the Corporation's business that occurred from the publication date of the of the Corporation's Annual Report for 2011 on March 29, 2012 and up to the publication date of this report[8]:

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

A. On April 22, 2012, East Mediterranean Gas S.A.E. (hereinafter – "EMG") notified a subsidiary of ICL, Dead Sea Works (hereinafter – "DSW") that it received a letter from Egyptian General Petroleum Corporation and Egyptian Natural Gas Holding Company (hereinafter – "EGPC/EGAS"), whereby, among other things, EGPC/EGAS request to cancel the gas supply agreement with EMG. For additional details – see the Corporation's Immediate Report dated April 23, 2012 (Ref. No. 2012-01-106689).

B. On May 24, 2012, the High Court of Justice summarily dismissed the petition of Man, Nature and Law – the Israeli Society for Protection of the Environment and the Movement for Quality of the Governance in Israel for issuance of a conditional order and issuance of an interim order against the Government of Israel, the Ministry of Finance and Dead Sea Works, in connection with the decision of the Government of Israel on January 1, 2012 with respect to the permanent solution for the water level at the Dead Sea and the royalties, and also charged them for expenses to the respondents. For additional details – see the Corporation's Immediate Report dated May 28, 2012 (Reference No. 2012-01-136461).

[8] Update of the Corporation's business is prepared in accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 1970, and includes significant changes or new developments in the Corporation's business that occurred from the publication date of the Corporation's Annual Report for 2011 and up to the publication date of this report. Unless it is expressly determined otherwise or where the context of the matters requires otherwise, all the terms and expressions used in this report shall have the meaning existing for them in the Corporation's Periodic Report for 2011, which was published on March 29, 2012 (Ref. No. 2012-01-084666) (hereinafter – "the Periodic Report"). Every reference to an Immediate Report includes as part of this document all the information included in the Immediate Report as stated.

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

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

A. On May 6, 2012, S&P Maalot (hereinafter – "Maalot") gave notice regarding with respect to a reduction of ZIM's rating to a rating of ilB/Negative (from ilBB–/Negative). For additional details – see the Corporation's Immediate Report dated May 6, 2012 (Ref. No. 2012-01-117504).

B. Further to that stated in Section 13, Various Events in the Corporation in the Year of Account and Thereafter in the Report of the Board of Directors as at December 31, 2011, pursuant to a decision of the Corporation's General Meeting on November 3, 2009, and approval by the Corporation's Audit Committee and Board of Directors, regarding provision of a framework of $50 million in the full amount of the reserve, subsequent to the date of the report, the Corporation transferred the amount of $50 million to ZIM as a loan convertible into shares of ZIM. For details – see the Corporation's Immediate Report dated May 29, 2012 (Ref. No. 2012-01-139077).

C. During the period of the report, ZIM completed receipt of all the consents from the relevant banks for waiver/revision of its financial covenants in connection with its business plan. For details – see the Corporation's Immediate Report dated May 29, 2012 (Ref. No. 2012-01-139077).

3. To Section 10 of Paragraph A of the Periodic Report – Oil Refineries Limited Ltd. ("ORL")

A. On April 22, 2012, EMG notified ORL that it received a letter from EGPC/EGAS, whereby, among other things, EGPC/EGAS request to cancel the gas supply agreement with EMG. For additional details – see the Corporation's Immediate Report dated April 23, 2012 (Ref. No. 2012-01-107526).

B. Subsequent to the date of the report, on May 6, 2012, S&P gave notice to ORL regarding reduction of ORL's rating to a rating of (ilBBB+) from (ilA–), with a stable rating outlook.

4. To Section 11 of Paragraph A of the Periodic Report – I. C. Power Ltd. ("I. C. Power")

A. On April 22, 2012, EMG notified O.P.C. Rotem (hereinafter – "O.P.C.") that it received a letter from EGPC/EGAS, whereby, among other things, EGPC/EGAS request to cancel the gas supply agreement with EMG. For additional details – see the Corporation's Immediate Report dated April 23, 2012 (Ref. No. 2012-01-107526).

B. For additional details regarding I.C. Power – see the Supplemental Report dated May 29, 2012 (Ref. No. 2012-01-139077).

5. To Section 12 of Paragraph A of the Periodic Report – Additional Investments not rising to the Level of an Activity Sector

Subsequent to the date of the report, the Corporation notified Tower of its intention to convert all the capital notes issued by Tower to the Corporation into about 206 million shares of Tower. In addition, the Corporation notified Tower that at this stage it does not intend to register the shares for trading or to trade or sell the shares.

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

For an update regarding the derivative claim – see the Immediate Report dated May 29, 2012 (Ref. No. 2012-01-139077).

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

7. To Section 21 of Paragraph A of the Periodic Report – Remuneration of Senior Officers

On May 7, 2012, the General Meeting of the Corporation's shareholders approved granting of an annual bonus to the Chairman of the Corporation's Board of Directors, Mr. Amir Elstein, in respect of 2011. For additional details – see the Corporation's Immediate Reports dated March 29, 2012 and May 8, 2012 (Ref. Nos. 2012-01-084843 and 2012-01-119934, respectively).

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

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

On May 7, 2012, the General Meeting of the Corporation's shareholders approved assignment of remuneration of directors employed as officers of companies related (directly or indirectly) to the Corporation's controlling shareholder, which are not the Corporation or companies it controls ("the Employed Directors"), who serve from time to time, to their employers (or to companies related to their employers, including companies that are interested parties in the Corporation) ("the Employer Companies"), commencing from the date of their initial appointment as directors. For additional details – see the Corporation's Immediate Reports dated March 29, 2012 and May 8, 2012 (Ref. Nos. 2012-01-084843 and 2012-01-119934, respectively).

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

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

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

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

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

2. Members of the Committee

The Committee has 5 members, as follows:

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

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

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

2. Members of the Committee (Cont.)

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

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

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

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

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

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

Dan Zusskind – who is an independent director; and has accounting and financial expertise.

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

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

3. Approval process of the financial statements

A. Approval of the financial report for the first quarter of 2012 involved two meetings, as detailed below: 1) a meeting of the Finance and Balance Sheet Committee, prior to the meeting of the Board of Directors, for an in-principle and comprehensive discussion of the report's significant issues and as well as a discussion to formulate its recommendations to the Board of Directors for approval of the statements; and 2) a meeting of the Board of Directors for discussion of the recommendations of the Finance and Balance Sheet Committee for discussion of the financial statements and approval thereof.

B. The Finance and Balance Sheet Committee discussed and formulated its recommendations to the Corporation's Board of Directors at its meeting on May 22, 2012. At the Committee's meeting, Ofer Termachi, Gideon Langholtz and Dan Zusskind participated.

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

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

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

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

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

The Finance and Balance Sheet Committee examined the financial statements, by means of a detailed presentation by the Corporation's CEO and CFO, including: (a) estimates and assessments made regarding the financial statements; (b) the internal controls relating to the financial report for the first quarter of 2012; (c) the completeness and appropriateness of the disclosure in the financial statements; and (d) the accounting policies adopted and the accounting treatment applied regarding the entity's significant matters and the division into the Corporation's segments. In addition, the Committee received an update from the Corporation's management that no event or matter occurred that is sufficient to change the evaluation of the effectiveness of internal control as provided and presented in the annual report regarding internal control. In addition, reference of the auditing CPAs is provided to the matters presented. As a result of this meeting and on the basis of the discussions held there, the Finance and Balance Sheet Committee's recommendations regarding approval of the financial statements were provided to the members of the Board of Directors.

F. After the Board of Directors has received the Finance and Balance Sheet Committee's recommendations and a discussion was held of its recommendations, and after the Board of Directors was satisfied that the statements properly reflect the Corporation's financial position and results of operations, the Corporation's Board of Directors decided to approve the Corporation's financial statements as at March 31, 2012, at its meeting held on May 29, 2012. All the members of the Board of Directors participated in the meeting where the Corporation's financial statements as at March 31, 2012 were approved are: Amir Elstein (Chairman of the Board), Idan Ofer, Prof. Gideon Langholtz, Yoav Dufelt, Ofer Termachi, Zahavit Cohen, Amnon Lion, Ron Moshkovitz, Zev Nehari, Aviad Kaufman, Eitan Raf, Dan Zusskind and Michael Bricker.

EVENTS OCCURRING DURING THE PERIOD OF THE REPORT AND THEREAFTER

1. On March 28, 2012, the Corporation's Board of Directors decided to distribute a dividend in the amount of $120 million that was paid on May 1, 2012.

2. In January 2012, Maalot confirmed a rating for the Corporation's debentures (Series 3–9) of ilA+/stable.

3. In February 2012, the Audit Committee and Board of Directors of Israel Corporation approved a compromise agreement for final, full and complete settlement of two claims, which was submitted to the District Court of Tel-Aviv–Jaffa (hereinafter – "the Compromise Agreement") in connection with two requests for approval of a derivative claim filed in 2009 against directors that served in the Corporation in the relevant period, interested parties in the Corporation, and a subsidiary of the Corporation, ZIM, relating to the Corporation's investments in shares of ZIM in 2008, in the amount of about $246 million, while affirmatively responding to an issuance of rights published by ZIM to its shareholders and provision of a loan to ZIM, in the amount of $100 million, which was completed in July 2009. On May 20, 2012, the Court approved the compromise arrangement. For additional details – see Note 6.C to the financial statements.

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

4. Regarding a claim against the Corporation and an arbitration proceeding – see Note 6D to the financial statements.

5. In March 2012, the Corporation signed an agreement with Israel Petrochemical Works Ltd. (hereinafter – “IPW”). Pursuant to the agreement, the parties agreed that should IPW so request, the Corporation will place a lien on certain ORL shares it owns in favor of a lender that provided IPW credit, in an amount not in excess of NIS 100 million. For details – see Note 6E to the financial statements.

6. Subsequent to the period of the report, in May 2012, the Corporation transferred, through a subsidiary, the amount of $24 million, to Qoros, as part of the business plan of the joint venture.

7. Further to that stated in Section 13, Various Events in the Corporation in the Year of Account and Thereafter, in the Report of the Board of Directors as at December 31, 2011, subsequent to the period of the report, the Corporation transferred $50 million to ZIM, as a loan convertible into shares of ZIM, in accordance with the decision of the Corporation’s General Meeting on November 3, 2009 and with approval of the Corporation’s Audit Committee regarding provision of a framework of $50 million as a reserve amount.

8. On April 1, 2102, the Corporation submitted to the Securities Authority and to the Tel-Aviv Stock Exchange Ltd., a preliminary draft of a shelf prospectus, on the basis of the Corporation’s financial statements as at December 31, 2011, whereby the Corporation will be permitted to offer securities to the public in accordance with the conditions to be provided in the shelf prospectus and in the shelf tender statements to be issued thereunder (to the extent issued). It is noted that the draft of the shelf prospectus does not include, at this stage, an immediate offer of securities to the public. There is no certainty that the Corporation will complete the process of receiving a permit for publication of the shelf prospectus.

9. On May 28, 2012, the Chairman of the Board of Directors of ORL, Mr. Yossi Rozen, gave notice of his intention to conclude his position. The expected replacement date is the third or fourth quarter of 2012, after appointment of a new Chairman of the Board of Directors.

10. Regarding contacts ORL is carrying on after the date of the report with the financing banks, for purposes of receiving relief and/or determination of new financial ratios up to the end of the construction period of the Facility – see Note 5.D.1 to the financial statements.

11. Regarding a demand on Qoros to return a usage right in in land located in Wuhu – see Note 7.G to the financial statements.

12. Subsequent to the date of the report, the Corporation notified Tower of its intention to convert all the capital notes Tower issued to the Corporation into 206 million shares of Tower. In addition, the Corporation notified Tower that at this stage it does not intend to register the shares for trading or to trade or sell the shares.

13. For data regarding the Corporation’s liabilities – see the Immediate Report regarding the position of the liabilities based on repayment dates published by the Corporation on May 29, 2012 (Ref. No. 2012-01-139224), where the information included in that Report is included herein by reference.

ADDITIONAL INFORMATION INCLUDED IN THE AUDITORS' REVIEW REPORT

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

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

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

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

3. That stated in Note 5D1, regarding non-compliance of an associated company with the financial covenants as at the date of the report, obtaining of waiver letters from the financing banks subsequent to the date of the report, and contacts being carried on subsequent to the date of the report between the associated company and the financing banks for purposes of receiving relief and/or determination of new financial ratios up to the end of the construction period of the Facility.

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

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

May 29, 2012

Israel Corporation Ltd.

Condensed Consolidated Interim Financial Statements

As at March 31, 2012

(Unaudited)

In Millions of U.S. Dollars

Israel Corporation Ltd.
Report of the Corporation's Board of Directors and
Condensed Consolidated Interim Financial Statements
At March 31, 2012
Unaudited

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

Introduction

We have reviewed the accompanying financial information of Israel Corporation Ltd. and its subsidiaries including the condensed consolidated interim statement of financial position as at March 31, 2012 and the condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended. The Board of Directors and Management are responsible for preparation and presentation of the financial information for this interim period in accordance with IAS 34 "*Financial Reporting for Interim Periods*", and are also responsible for preparation of financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on the interim financial information for this interim period based on our review.

We did not review the condensed financial information for the interim period of subsidiaries, the assets of which included in the consolidation constitute about 1.6% of the total consolidated assets as at March 31, 2012, and the revenues of which included in the consolidation constitute about 3.8% of the total consolidated revenues for the three-month period ended on that date. In addition, we did not review the condensed financial information for the interim period of associated companies, the investment in which totaled about $55 million as at March 31, 2012, and the Group's share in their losses was about $2 million, for the three-month period ended on that date. The condensed financial information for the interim period of those companies was reviewed by other auditors whose review reports thereon were furnished to us and our conclusion, insofar as it relates to amounts included in respect of those companies, is based on the review reports of the other auditors.

Scope of the Review

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

Conclusion

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

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

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

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

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

3. That stated in Note 5D1, regarding non-compliance of an associated company with the financial covenants as at the date of the report, obtaining of waiver letters from the financing banks subsequent to the date of the report, and contacts being carried on subsequent to the date of the report between the associated company and the financing banks for purposes of receiving relief and/or determination of new financial ratios up to the end of the construction period of the Facility.

Somekh Chaikin
Certified Public Accountants (Isr.)

May 29, 2012

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Financial Position

	At March 31		At December 31
	2012	**2011**	**2011**
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Current Assets			
Cash and cash equivalents	**1,065**	1,364	**1,241
Securities held for trade	**37**	**22	37
Short-term investments, deposits and loans	**400**	**522	**606
Trade receivables	**1,702**	1,546	1,654
Other receivables and debit balances, including derivative instruments	**427**	455	390
Income taxes receivable	**66**	91	86
Inventories	**1,493**	1,222	1,454
Total current assets	**5,190**	5,222	5,468
Non-Current Assets			
Investments in associated companies	**1,341**	*1,302	1,328
Investments in other companies	**7**	14	8
Deposits, loans and other debit balances	**346**	285	313
Derivative instruments	**303**	376	319
Excess of assets over liabilities in respect of defined benefit plan	**75**	89	65
Deferred taxes, net	**101**	121	107
Non-current inventory	**47**	51	49
Property, plant and equipment	**6,672**	5,913	6,569
Intangible assets	**1,163**	1,057	1,130
Total non-current assets	**10,055**	9,208	9,888
Total assets	**15,245**	14,430	15,356

* Insignificant adjustment – see Note 2E.
** Reclassified.

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

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Financial Position

	At March 31 2012	At March 31 2011	At December 31 2011
	(Unaudited)	(Unaudited)	(Audited)
	In Millions of U.S. Dollars		
Current Liabilities			
Credit from banks and others	**1,251**	1,196	2,923
Trade payables	**1,092**	961	1,107
Provisions	**88**	96	77
Dividend payable to the owners of the Corporation	**120**	70	–
Other payables and credit balances, including derivative instruments	**966**	862	889
Income taxes payable	**55**	57	58
Total current liabilities	**3,572**	3,242	5,054
Non-Current Liabilities			
Loans from banks and others	**4,228**	3,995	2,656
Debentures	**2,323**	2,322	2,381
Derivative instruments	**67**	115	88
Provisions	**79**	70	80
Deferred taxes, net	**266**	174	269
Employee benefits	**677**	670	662
Total non-current liabilities	**7,640**	7,346	6,136
Total liabilities	**11,212**	10,588	11,190
Equity			
Share capital and premium	**285**	285	285
Capital reserves	**118**	143	98
Capital reserve in respect of transactions with controlling shareholder	**147**	102	137
Retained earnings	**1,742**	**1,777	1,945
Total equity attributable to the owners of the Corporation	**2,292**	2,307	2,465
Holders of non-controlling interests	**1,741**	1,535	1,701
Total equity	**4,033**	3,842	4,166
Total liabilities and equity	**15,245**	14,430	15,356

* Insignificant adjustment – see Note 2E.

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

Approval date of the financial statements: May 29, 2012

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

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Income

	For the Three Months Ended March 31		For the Year Ended December 31
	2012	**2011**	**2011**
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Sales	**2,616**	2,579	11,608
Cost of sales	**2,060**	1,888	8,477
Gross profit	**556**	691	3,131
Research and development expenses	**21**	17	77
Selling, transportation and marketing expenses	**176**	188	873
Administrative and general expenses	**122**	115	506
Other expenses	**5**	8	30
Other income	**(13)**	(12)	(97)
Operating income	**245**	375	1,742
Financing expenses	**153**	198	505
Financing income	**(54)**	(13)	(181)
Financing expenses, net	**99**	185	324
Share in losses of associated companies, net of tax	**(27)**	*(38)	(95)
Income before taxes on income	**119**	152	1,323
Taxes on income	**62**	68	423
Income for the period	**57**	84	900
Attributable to:			
Owners of the Corporation	**(82)**	*(57)	151
Holders of non-controlling interests	**139**	141	749
Income for the period	**57**	84	900
Income (loss) per share attributable to the owners of the Corporation:			
Basic income (loss) per share (in dollars)	**(10.64)**	*(6.91)	19.52
Diluted income (loss) per share (in dollars)	**(10.73)**	(7.07)	18.81

* Insignificant adjustment – see Note 2E.

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

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Comprehensive Income

	For the Three Months Ended March 31		For the Year Ended December 31
	2012	2011	2011
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Income for the period	**57**	*84	900
Components of other comprehensive income (loss)			
Foreign currency translation differences in respect of foreign activities	**37**	41	(39)
Actuarial gains (losses) from defined benefit plans, net	**8**	18	(41)
Group's share in other comprehensive income (loss) of associated companies	**–**	1	(7)
Effective portion of the change in fair value of cash flow hedges	**(5)**	(1)	–
Net change in fair value of financial assets available for sale	**–**	(4)	(8)
Net change in fair value of cash flow hedges transferred to the statement of income	**1**	1	3
Net change in fair value of financial assets available for sale transferred to the statement of income	**–**	6	6
Taxes in respect of components of other comprehensive income (loss)	**(2)**	(3)	10
Other comprehensive income (loss) for the period, net of tax	**39**	59	(76)
Comprehensive income for the period	**96**	143	824
Attributable to:			
Owners of the Corporation	**(61)**	*(22)	111
Holders of rights non-controlling interests	**157**	165	713
Comprehensive income for the period	**96**	143	824

* Insignificant adjustment – see Note 2E.

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

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

	Attributable to the owners of the Corporation						Non-controlling interests	Total equity
	Share capital and premium	Translation reserve for foreign activities	Capital reserves	Capital reserve for transactions with controlling shareholder	Retained earnings	Total		
	(Unaudited)							
	$ millions							
For the three months ended March 31, 2012								
Balance at January 1, 2012 (audited)	**285**	**46**	**52**	**137**	**1,945**	**2,465**	**1,701**	**4,166**
Share-based payments in a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**2**	**2**
Exercise of options granted to employees in a subsidiary	**–**	**–**	**–**	**–**	**2**	**2**	**2**	**4**
Share-based payments in the Corporation	**–**	**–**	**2**	**–**	**–**	**2**	**–**	**2**
Dividend to holders of non-controlling interests in a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**(128)**	**(128)**
Dividend to equity holders	**–**	**–**	**–**	**–**	**(120)**	**(120)**	**–**	**(120)**
Acquisition of shares from holders of non-controlling interests in a subsidiary	**–**	**–**	**–**	**–**	**(6)**	**(6)**	**(2)**	**(8)**
Issuance of shares of a subsidiary to holders of non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**9**	**9**
Transactions with controlling shareholder	**–**	**–**	**–**	**10**	**–**	**10**	**–**	**10**
Income (loss) for the period	**–**	**–**	**–**	**–**	**(82)**	**(82)**	**139**	**57**
Other comprehensive income for the period, net of tax	**–**	**20**	**(2)**	**–**	**3**	**21**	**18**	**39**
Balance at March 31, 2012	**285**	**66**	**52**	**147**	**1,742**	**2,292**	**1,741**	**4,033**

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

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

	Attributable to the owners of the Corporation						Non-controlling interests	Total equity
	Share capital and premium	Translation reserve for foreign activities	Capital reserves	Capital reserve for transactions with controlling shareholder	Retained earnings	Total		
	(Unaudited)							
	$ millions							
For the three months ended March 31, 2011								
Balance at January 1, 2011 (audited)	282	65	42	90	1,904	2,383	1,446	3,829
Share-based payments in a subsidiary	–	–	–	–	–	–	4	4
Share-based payments in the Corporation	3	–	1	–	–	4	–	4
Dividend to holders of non-controlling interests in a subsidiary	–	–	–	–	–	–	(83)	(83)
Dividend to equity holders	–	–	–	–	(70)	(70)	–	(70)
Transactions with holders of non-controlling interests	–	–	–	–	–	–	3	3
Transactions with controlling shareholder	–	–	–	12	–	12	–	12
Income (loss) for the period	–	–	–	–	*(57)	(57)	141	84
Other comprehensive income for the period, net of tax	–	24	11	–	–	35	24	59
Balance at March 31, 2011	285	89	54	102	1,777	2,307	1,535	3,842

* Insignificant adjustment – see Note 2E.

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

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

	Attributable to the owners of the Corporation						Non-controlling interests	Total equity
	Share capital and premium	Translation reserve for foreign activities	Capital reserves	Capital reserve for transactions with controlling shareholder	Retained earnings	Total		
	(Unaudited)							
	$ millions							
Balance at January 1, 2011	**282**	**65**	**42**	**90**	**1,904**	**2,383**	**1,446**	**3,829**
Share-based payments in a subsidiary	–	–	–	–	–	–	14	14
Share-based payments in the Corporation	3	–	9	–	–	12	–	12
Dividend to holders of non-controlling interests in a subsidiary	–	–	–	–	–	–	(478)	(478)
Dividend to equity holders	–	–	–	–	(70)	(70)	–	(70)
Non-controlling interests in respect of business combination	–	–	–	–	–	–	15	15
Acquisition of shares from holders of non-controlling interests in a subsidiary	–	–	–	–	(18)	(18)	(14)	(32)
Issuance of shares of a subsidiary to holders of non-controlling interests	–	–	–	–	–	–	3	3
Transactions with holders of non-controlling interests	–	–	–	–	–	–	5	5
Change in options of proportionately consolidated company	–	–	–	–	–	–	(3)	(3)
Transactions with controlling shareholder	–	–	–	47	–	47	–	47
Income for the year	–	–	–	–	151	151	749	900
Comprehensive loss for the year , net of tax	–	(19)	1	–	(22)	(40)	(36)	(76)
Balance at December 31, 2011	**285**	**46**	**52**	**137**	**1,945**	**2,465**	**1,701**	**4,166**

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

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Cash Flows

	For the Three Months Ended March 31		For the Year Ended December 31
	2012	**2011**	**2011**
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Cash flows from operating activities			
Income for the period	**57**	*84	900
Adjustments:			
Depreciation and amortization	**132**	112	501
Decline in value of assets	**4**	–	11
Financing expenses, net	**102**	160	241
Share in losses of associated companies, net of tax	**27**	*38	95
Capital gains, net	**(9)**	(10)	(64)
Share-based payment transactions	**4**	7	24
Gain in respect of acquisition at bargain price (negative goodwill)	**–**	–	(24)
Loss from investment in securities held for trade and securities available for sale	**1**	6	8
Taxes on income	**62**	68	423
	380	465	2,115
Change in inventories	**(26)**	3	(214)
Change in trade and other receivables	**(74)**	(194)	(290)
Change in trade and other payables	**(4)**	121	314
Change in uncompleted voyages, net	**(11)**	(54)	(58)
Change in provisions and employee benefits	**18**	8	(38)
	283	349	1,829
Income taxes paid, net	**(62)**	(201)	(453)
Dividend received	**6**	7	39
Net cash provided by operating activities	**227**	155	1,415

* Insignificant adjustment – see Note 2E.

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

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Cash Flows

	For the Three Months Ended March 31		Year Ended December 31
	2012	**2011**	**2011**
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Cash flows from investing activities			
Investment in long-term deposits	**(1)**	–	(35)
Proceeds from realization of long-term deposits	**1**	–	4
Proceeds from sale of property, plant and equipment	**4**	4	49
Short-term deposits and loans, net	**211**	151	**48
Business combinations less cash acquired	**–**	(263)	(470)
Proceeds from sale of subsidiary, less the cash sold	**1**	–	–
Investments in associated and other companies	**(46)**	–	(103)
Proceeds from sale of associated companies	**–**	–	10
Sale of securities held for trade and available for sale	**–**	–	14
Acquisition of property, plant and equipment	**(210)**	(157)	(1,026)
Investment grants received	**–**	–	1
Acquisition of intangible assets	**(35)**	(5)	(32)
Interest received	**14**	11	40
Collection of long-term loans	**–**	–	34
Receipts (payments) from derivative transactions, net used for hedging, net	**(3)**	–	2
Receipts (payments) from derivative transactions, net	**11**	(8)	21
Net cash used in investing activities	**(53)**	(267)	(1,443)

** Reclassified.

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

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Cash Flows

	For the		
	Three Months Ended March 31		Year Ended December 31
	2012	2011	2011
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Cash flows from financing activities			
Dividend paid to holders of non-controlling interests	**(19)**	(83)	(541)
Acquisition of non-controlling interests in subsidiary	**(8)**	–	–
Proceeds from issuance of equity to holders of non-controlling interests in subsidiaries	**9**	4	18
Receipt of long-term loans and issuance of debentures	**363**	299	1,930
Dividend paid to the owners of the Corporation	**–**	–	(70)
Repayment of long-term loans and debentures	**(338)**	(227)	(1,557)
Short-term credit from banks and others, net	**(264)**	106	332
Payments from derivative transactions used for hedging, net	**–**	(1)	–
Proceeds from exercise of options granted to Corporation employees	**4**	–	–
Interest paid	**(100)**	(97)	(304)
Net cash provided by (used in) financing activities	**(353)**	1	(192)
Decrease in cash and cash equivalents	**(179)**	(111)	(220)
Cash and cash equivalents at beginning of the period	**1,240**	1,476	1,476
Effect of exchange rate fluctuations on balances of cash and cash equivalents	**3**	(1)	(16)
Cash and cash equivalents at the end of the period	**1,064**	1,364	**1,240

** Reclassified.

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

Note 1 – The Reporting Entity

Israel Corporation Ltd. (hereinafter – "the Corporation") is an Israeli-resident public corporation whose securities are listed for trading on the Tel-Aviv Stock Exchange and its registered office is located at 23 Aranha St., Tel-Aviv, Israel. The condensed consolidated interim financial statements as at March 31, 2012, include those of the Corporation, its subsidiaries and jointly-held companies (hereinafter – "the Group") along with the Group's rights in associated companies.

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

Note 2 – Basis of Preparation of the Financial Statements

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

The condensed consolidated interim financial statements were prepared in accordance with IAS 34, "Financial Reporting for Interim Periods" and do not include all of the information required in complete, annual financial statements. These statements should be read together with the financial statements for the year ended December 31, 2011 (hereinafter – "the Annual Financial Statements"). In addition, these financial statements were prepared in accordance with the provisions of Section D of the Securities Regulations (Periodic and Immediate Reports) 1970.

The condensed, consolidated, interim financial statements were approved for publication by the Corporation's Board of Directors on May 29, 2012.

B. Functional currency and presentation currency

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

C. Use of estimates and judgment

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

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

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

C. Use of estimates and judgment (Cont.)

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

In the period of the report, the ICL Group examined the useful lives of its property, plant and equipment by making a comparison with the industry in which the ICL Group operates, the level of maintenance of the facilities and the functioning of the facilities over the years. Based on this examination, it was found that in a subsidiary of ICL, the depreciation period of certain property, plant and equipment items is shorter than the remaining useful lives anticipated for them. On the basis of this evaluation, a change in the economic useful lives of those property, plant and equipment items was made in ICL's subsidiary. As a result, the expected useful lives of these assets were lengthened to a period of 25–40 years commencing from the beginning of the year.

The change in estimate is based on the ICL Group's accumulated experience, and not on changes that took place in the assets or the business environment. A prior evaluation that gave rise to a change in the estimated useful lives of the ICL Group's property, plant and equipment was made in 2007. This evaluation was also based on the experience accumulated by the ICL Group.

The impact of the change in estimate on the annual anticipated depreciation expenses to be recorded to the cost of sales is about $9 million. The impact of the change in the period of the report is not significant.

D. Reclassification

Commencing from the second quarter of 2011, ZIM, which constitutes a reportable segment, classifies revaluation of the derivatives on fuel prices as part of the operating expenses, instead of as part of the financing expenses. The impact of the classification on the comparative figures is not significant.

E. Non-significant adjustment of the comparative data

As part of the headquarters' work performed by Oil Refineries Ltd. (hereinafter – "ORL") with respect to inventory levels, it was found that in 2002, at a time when ORL was still a government company, an agreement was first signed between it and the State of Israel relating to holding of emergency inventory of diesel fuel for transportation (hereinafter – "the Emergency Inventory"), in an amount presently standing at about 44 thousand tons. The agreement was revised in 2004 and 2005 and was extended or renewed since then from time to time, after undergoing certain revisions, and as at the date of the report it is effective up to the end of 2011 (hereinafter – "the Agreement"). The Agreement was not reflected in ORL's financial statements, including the statements included in the ORL's privatization prospectus from February 2007.

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

E. Non-significant adjustment of the comparative data (Cont.)

Pursuant to the Agreement, ORL undertook to hold in its possession an inventory of diesel fuel for transportation, as defined in the Agreement in such a manner that it can be supplied to the State, or to a party the State so instructs, immediately at the time of an emergency situation (as defined in the Agreement), and in such a case the State will pay ORL the dollar value of this inventory at the price at ORL's factory gate as it stood in November 2002, with certain adjustments (hereinafter – "the Fixed Price"). In consideration for holding the Emergency Inventory, the State pays ORL periodic payments as stipulated in the Agreement. In addition, at the end of the period of the Agreement an accounting will be made between the parties, where if the price of the inventory at ORL's factory gate on date of conclusion of the Agreement is higher than the Fixed Price, ORL will pay the difference to the State, whereas if the price of the inventory at ORL's factory gate on date of conclusion of the Agreement is lower than the Fixed Price, the State will pay ORL the difference.

ORL examined the accounting consequences of the Agreement and determined that since pursuant to the Agreement ORL is required to sell diesel fuel to the State at the Fixed Price, and if no sale as stated is made, at the end of the period of the Agreement, ORL will receive from or pay to the State in cash the difference between the price of the inventory at ORL's factory gate on the conclusion date of the Agreement and the Fixed Price, the Agreement as stated is covered by IAS 39 and it fulfills the definition of a derivative instrument.

The Corporation examined the materiality of the error found in ORL's financial statements on the Corporation's financial statements with reference to the relevant reporting periods: the interim periods ended March 31, 2011 and June 30, 2011, and reached the conclusion, after examining the quantitative and qualitative parameters that the said error is not sufficient to impact making of the economic decisions and/or analysis of the said financial statements by users of the financial statements. Accordingly, a significant error is not involved that requires reissuance of amended financial statements of the Corporation.

The impact of the said correction on the financial statements is an increase in the loss attributable to the Corporation's owners for the three-month period ended March 31, 2011 by about $4 million.

The above-mentioned correction was included in the comparative figures in these financial statements by means of marking the amended financial-statement categories as an "insignificant adjustment".

Note 3 – Significant Accounting Policies

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

B. Indices and Exchange Rates

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

	Consumer Price Index	Dollar–NIS exchange rate	Dollar–Euro exchange rate
	%	%	%
Rates of change for the three months ended:			
March 31, 2012	**–**	**(2.8)**	**(3.1)**
March 31, 2011	0.7	(1.9)	(6.1)
For the year ended December 31, 2011	2.5	7.7	3.3

Note 4 – Information on Activity Segments

A. General

The Group is composed of the following activity segments:

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

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

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

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

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

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

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

Note 4 – Information on Activity Segments (Cont.)

B. Information relating to Business Segments

	ICL	ORL	ZIM	I.C. Power	Other	Adjustments [1]	Total
	Unaudited						
	$ millions						
For the three months ended March 31, 2012:							
Sales to external customers	1,552	2,448	861	132	71	(2,448)	2,616
Inter-segment sales	–	–	4	–	–	–	4
	1,552	2,448	865	132	71	(2,488)	2,620
Elimination of inter-segment sales	–	–	(4)	–	–	–	(4)
Total sales	1,552	2,448	861	132	71	(2,488)	2,616
Income (loss) before EBITDA	423	80	(69)	29	(2)	(79)	382
Depreciation and amortization	73	38	48	13	2	(38)	136
Financing income	(14)	(2)	(5)	(3)	(39)	9	(54)
Financing expenses	31	43	47	11	72	(51)	153
Share in losses (income) of associated companies	(2)	1	(1)	(9)	39	(1)	27
Extraordinary or non-recurring income	1	–	–	–	–	–	1
	89	80	89	12	74	(81)	263
Income (loss) before taxes	334	–	(158)	17	(76)	2	119
Taxes on income	44	6	5	3	10	(6)	62
Income (loss) for the year	290	(6)	(163)	14	(86)	8	57

[1] Mainly adjustments deriving from the ORL segment.

Note 4 – Information on Activity Segments (Cont.)

B. Information relating to Business Segments (Cont.)

	ICL	ORL	ZIM	I.C. Power	Other	Adjustments [1]	Total
	Unaudited						
	$ millions						
For the three months ended March 31, 2011:							
Sales to external customers	1,528	2,058	905	130	16	(2,058)	2,579
Inter-segment sales	–	–	7	–	–	–	7
	1,528	2,058	912	130	16	(2,058)	2,586
Elimination of inter-segment sales	–	–	(7)	–	–	–	(7)
Total sales	1,528	2,058	905	130	16	(2,058)	2,579
Income (loss) before EBITDA	415	*67	39	32	(1)	(65)	487
Depreciation and amortization	55	32	45	12	–	(32)	112
Financing income	(5)	(8)	(3)	(1)	(39)	43	(13)
Financing expenses	28	59	108	11	86	(94)	198
Share in losses (income) of associated companies	(4)	–	(6)	(6)	53	1	38
	74	83	144	16	100	(82)	335
Income (loss) before taxes	341	(16)	(105)	16	(101)	17	152
Taxes on income	61	*1	2	5	11	(12)	68
Income (loss) for the year	280	(17)	(107)	11	(112)	29	84

* Insignificant adjustment – see Note 2E.
[1] Mainly adjustments deriving from the ORL segment.

Note 4 – Information on Activity Segments (Cont.)

B. Information relating to Business Segments (Cont.)

	ICL	ORL	ZIM	I.C. Power	Other	Adjustments (1)	Total
	Audited						
	$ millions						
2011:							
Sales to external customers	7,067	9,562	3,758	526	257	(9,562)	11,608
Inter-segment sales	1	9	26	–	–	(9)	27
	7,068	9,571	3,784	526	257	(9,571)	11,635
Elimination of inter-segment sales	(1)	(9)	(26)	–	–	9	(27)
Total sales	7,067	9,562	3,758	526	257	(9,562)	11,608
EBITDA income	2,193	135	(85)	120	(1)	(132)	2,230
Depreciation and amortization	267	135	193	41	8	(132)	512
Financing income	(42)	(35)	(57)	(6)	(135)	94	(181)
Financing expenses	104	142	165	49	246	(201)	505
Share in losses (income) of associated companies	(8)	22	(15)	(25)	143	(22)	95
Extraordinary or non-recurring income	–	–	–	(24)	–	–	(24)
	321	264	286	35	262	(261)	907
Income (loss) before taxes	1,872	(129)	(371)	85	(263)	129	1,323
Taxes on income	349	(25)	19	18	32	30	423
Income (loss) for the year	1,523	(104)	(390)	67	(295)	99	900
Other significant non-cash items:							
Decline in value of fixed and intangible assets	–	–	11	–	–	–	11
Segment assets	7,254	4,496	3,504	1,884	1,300	(4,410)	14,028
Investments in associated companies	29	10	19	283	4,876	(3,889)	1,328
							15,356
Sector liabilities	4,178	3,506	3,153	1,569	3,160	(4,376)	11,190
Capital expenses	909	359	23	636	139	(359)	1,707

(1) Mainly adjustments deriving from the ORL segment.

Note 5 – Additional Information

A. The Corporation

1. On March 28, 2012, the Corporation's Board of Directors decided to distribute a dividend in the amount of $120 million, about 15.6 per share. The dividend was paid on May 1, 2012.

2. In period of the report, the capital of Tower Semiconductors Ltd. (hereinafter – "Tower") increased by about $3 million (in accordance with IFRS), deriving mainly from conversion of debentures and options for Tower shares. As a result, the Corporation's share in Tower declined (on the assumption that the capital notes will converted into shares) from about 30.7% to about 30.6% and the Corporation realized a capital gain of about $5 million.

3. In January 2012, S&P Maalot confirmed a rating for the Corporation's debentures (Series 3–9) of ilA+/stable.

4. In January 2012, the Corporation acquired 733,333 ordinary shares of ICL, constituting about 0.06% of ICL's issued share capital, for a consideration of about $8 million.

5. Further to Note 11A3(b) to the Annual Financial Statements, in March 2012, the Corporation transferred, through a subsidiary, the amount of about $36 million to Chery Quantum Auto Co. Ltd. (hereinafter – "Qoros") as part of the joint venture's business plan. Subsequent to the date of the report, in May 2012, the Corporation transferred, through the subsidiary, about $24 million to Qoros, as part of the business plan of the joint venture.

6. Further to Note 22C3(a)(vi) to the Annual Financial Statements, the Corporation activated the security net and transferred $50 million into ZIM, the full amount of the Corporation's commitment under the security net, as a loan. Concurrently, the controlling shareholders also transferred $50 million into ZIM, in full satisfaction of their commitment under the security net.

7. Further to Note 22C3(a)(vii) to the Annual Financial Statements, the subsequent to the period of the report, the Corporation transferred $50 million to ZIM, as a loan convertible into ZIM shares, in accordance with the decision of the Corporation's General Meeting on November 3, 2009 and with approval of the Corporation's Audit Committee regarding provision of a framework of $50 million as a reserve amount.

8. The Group attaches to these financial statements, the financial statements of the following associated companies:

   (a) Better Place Inc.

   (b) Qoros Automotive Ltd. – the reporting currency of Qoros is the RMB. As at March 31, 2012, the exchange rate of the RMB vis-à-vis the dollar was 6.30 (as at December 31, 2011 – 6.31, a decline of 0.2%).

Note 5 – Additional Information (Cont.)

A. The Corporation (Cont.)

9. Pursuant to Regulation 24(A) of the Securities Regulations (Annual Financial Statements), 2010, set forth below is condensed financial data of Generadndes Peru S.A., with no adjustment for the rate of holdings:

	At March 31		At December 31
	2012	**2011**	**2011**
	In Millions of U.S. Dollars		
Current assets	**160**	134	145
Non-current assets	**1,551**	1,521	1,547
	1,711	1,655	1,692
Current liabilities	**155**	116	149
Non-current liabilities	**607**	644	639
Equity attributable to the owners of the company	**503**	474	479
Holders of non-controlling interests	**446**	421	425
	1,711	1,655	1,692

	For the Three Months Ended March 31		For the Year Ended December 31
	2012	**2011**	**2011**
	In Millions of U.S. Dollars		
Sales	**144**	122	506
Operating expenses	**(86)**	(76)	(334)
Financing expenses	**(5)**	(6)	(22)
Share in income of associated company	**6**	3	23
Taxes on income	**(18)**	(13)	(60)
Income for the period	**41**	30	113
Income attributable to:			
The owners of the company	**22**	16	59
Holders of non-controlling interests	**19**	14	54
Income for the period	**41**	30	113

Note 5 – Additional Information (Cont.)

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

In the period of the report, 2,156,596 options of ICL were exercised for 1,604,957 of ICL's ordinary shares.

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

1. Further Note 22E3(d) to the Annual Financial Statements with respect to financial covenants of ZIM, during the period of the report succeeded in obtaining signed agreements from all the relevant creditors in connection with the financial covenants, as described in Note 22E3(d) to the Annual Financial Statements. As a result, ZIM's long-term loans and liabilities that were classified in the Annual Financial Statements to short-term are presented in these financial statements as long-term, pursuant to the provisions of IAS 1.

2. As at March 31, 2012, ZIM is in compliance with the updated financial covenants described in Note 22E3(d) to the Annual Financial Statements. The minimum liquidity balance as at March 31, 2012, is $120 million (the minimum quarterly required liquidity balance is $100 million).

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

1. As at March 31, 2012, ORL was not in compliance with the minimum adjusted EBITDA ratio it is required to maintain in connection with long-term loans in the construction period of a facility for production of clean fuels. Subsequent to the period of the report, ORL received waiver letters from the financing banks whereby ORL will not be required to comply with the minimum adjusted EBITDA covenant with respect to the first quarter of 2012.

   For this quarter, ORL will pay additional interest at an annual rate of 1.15%.

   In addition, subsequent to the date of the report, negotiations are underway between ORL and the financing banks to obtain exemptions and/or determine new financial covenants up to completion of the project.

   ORL believes that it is probable that it will comply with all the conditions to prevent a call for early repayment due to breach of the covenants for at least 12 months from March 31, 2012.

   Nonetheless, in accordance with IAS 1, since the deviation from the covenants occurred at the end of the reporting period, ORL is required to reclassify the long-term loans and liabilities to short-term, even though the relevant creditors did not actually demand calling the debt for immediate repayment and despite the fact that ORL received waivers and/or amendments for the financial covenants subsequent to the date of the report.

Note 5 – Additional Information (Cont.)

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

2. In the period of the report, ORL contacted the non-public debenture holders with a request to change the financial conditions and to conform them to some of the conditions of the long-term loans. The General Meeting of the debenture holders was held on March 27, 2012, and it approved the change as stated, in exchange for payment of additional interest of 0.8% per year in respect of the debentures.

3. In the period of the report, ORL signed an agreement covering availability of crude oil with an international company (hereinafter – "the Other Party"). Set forth below are the highlights of the agreement:

   (a) Pursuant to the agreement, ORL will be permitted available access, over a period of 5 years (hereinafter – "the Agreement Period"), to a quantity of 2 million barrels (about 270 thousand tons) of different types of crude oil, owned by the Other Party, including by means of exchange thereof for identical quantities of different types of crude oil owned by ORL.

   (b) ORL is to pay the Other Party periodic payments in respect of its liabilities under the agreement. As part of the agreement, ORL will make monetary deposits with the Other Party, in amounts deriving from the different types of crude oil held by the Other Party.

   (c) In order to comply with its liabilities under the agreement, the Other Party will store crude oil in facilities of an infrastructure supplier, in accordance with the agreement with the infrastructure supplier.

   (d) As part of the agreement, ORL provided the Other Party a "put" option, whereby the Other Party is entitled to sell to ORL, at the end of the Agreement Period, crude oil at a price based on the representative market price of crude oil (spot market price), as it will be at the end of the Agreement Period.

   (e) ORL also undertook contingent liabilities to the Other Party and to the infrastructure supplier in connection with certain costs and risks relating to execution of the agreement by them.

   (f) Each of the parties is permitted to bring the agreement to an end prior to the end of the Agreement Period upon existence of certain circumstances. In a case where ORL brings the agreement to and end prior to the end of the Agreement Period, it may bear cancellation expenses.

   The agreement permits ORL to reduce over time the inventory quantities of crude oil it holds, and as a result, to optimally manage its operating inventory balances.

   Since the Other Party bears significant risks and rewards relating to ownership of the inventory covered by the agreement and also controls it, this inventory will not be recognized in ORL's financial statements but, rather, it will be treated as a performance contract (that is, an off-balance sheet undertaking).

Note 5 – Additional Information (Cont.)

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

3. (Cont.)

The availability fees will be recorded as an operating expense in the statement of income over the Agreement Period.

Subsequent to the date of the report, ORL commenced operating in accordance with this agreement.

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

Further to that stated in Note 17J of the Annual Financial Statements, during the period of the report, O.P.C. Rotem Ltd. (hereinafter – "O.P.C.") (a subsidiary of I.C. Power) made withdrawals of about $48 million in accordance with the agreement with a consortium of lenders and subsequent to the period of the report, O.P.C. withdrew an additional about $50 million. For purposes of making the withdrawals, O.P.C. obtained a waiver letter with respect to some of the preconditions for making the withdrawal.

F. Tower Semiconductors Ltd. (hereinafter – "Tower")

In February 2012, Tower expanded the convertible debentures (Series F) and thus raised about $80 million. The debentures bear interest at the annual rate of 7.8% and are repayable in two equal installments in December 2015 and December 2016.

Note 6 – Contingent Liabilities, Commitments and Concessions

A. As detailed in Note 22B2(b)(ii), Notes 22B3(a)(i)-(ii) and Note 22B3(ii)-(v), (vii) and (ix) to the Annual Financial Statements, a number of legal claims have been filed against a subsidiary of ICL, ORL, and certain investee companies of ORL, as well as against dozens of other defendants, alleging bodily injury and property damage caused to the plaintiffs stemming from pollution of the Kishon Stream, and there are also legal proceedings against the ORL Group, laws have been enacted and orders have been issued relating to the fuel and gas industry and infrastructure facilities belonging to the ORL Group. The managements of ICL and ORL, based on opinions of their legal advisors, are not able at this stage to estimate the impact of that stated above, if any, on the financial statements as at March 31, 2012 and, therefore, no provisions have been included in the financial statements relating to this matter.

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

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

B. (Cont.)

For purposes of supply of the natural gas, ORL is dependent on the supply company, Netivei Israel Natural Gas Company Ltd. (hereinafter – "Netivei"), with which it has signed a supply agreement. ORL has signed agreements with 2 gas suppliers. For details – see Note 6.H below.

C. Further to that stated in Note 22B.1 to the Annual Financial Statements, regarding a derivative claim, to the best of the Corporation's knowledge, no objection has been filed to approval of the compromise agreement and, therefore, since the number of days stipulated for filing of objections has elapsed, on March 26, 2012, a notice regarding this matter was filed with the Court. On May 20, 2012, the Court approved the compromise agreement as worded.

After approval of the compromise agreement, by the Court, the Corporation is continuing to act to obtain the other approvals required for its completion, in accordance with the provisions of the compromise agreement.

If and to the extent the conditions in the compromise agreement subject to approval of the competent authorities of the Corporation and of ZIM are not approved, the possibility exists that hearing of the consolidated claims will continue in accordance with the statements of claim filed. In such a case, and based on the evaluation of the legal advisors, the Corporation believes it will have reasonable defense arguments against approval of the consolidated cased in the derivative claims, as well as to reject the claims themselves, although, as usual, a derivative claims does not create exposure to the Corporation itself.

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

With respect to the arbitration proceedings between Chery and the plaintiff, the parties are presently awaiting the decision of the arbitrators. Taking into account the fact that the Corporation's attorneys are not inclined to express their opinion in connection with the arbitration proceeding, considering, among other things, the fact that the Corporation is not a party to the arbitration, that the process is being carried on subject to confidentiality and the Corporation's attorneys do not have access to the evidence submitted in the process, the impression received by the Corporation's attorneys is that Chery's representatives are quite confident with respect to Chery's defense arguments in the claim, and to the extent damages are found to exist in the Plaintiff's favor, the amount thereof will not be significant. In addition, based on an opinion of the Corporation's legal advisors, prior to clarification of the basis for the decisions against Chery, if any, in the framework of the arbitration proceedings in Hong Kong, it is too early to assess the potential application of the indemnification proceedings included in the joint venture agreement, as stated below, to Chery and/or the Corporation, as applicable.

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

E. In March 2012, in light of the good partnership existing between the Corporation and Israel Petrochemical Works Ltd. (hereinafter – "IPW") as part of the control nucleus in ORL and their joint strategic view with respect to improvement of ORL, the Corporation signed an agreement with IPW whereby it was agreed between the parties that if IPW so requests, the Corporation will place a lien on certain shares of ORL it owns in favor a lending party that will provide credit to IPW in an amount not in excess of NIS 100 million.

Pursuant to the agreement, IPW was granted a right vis-à-vis the Corporation as follows: if credit is provided to IPW by a lending party in an amount that does not exceed NIS 100,000,000 (hereinafter – "the Credit"), which will be used to repay debts of IPW the repayment date of which has arrived, and IPW will choose to place a lien in favor of the lending party on 80,000,000 NIS 1 par value each shares of ORL owned by IPW (hereinafter – "the Lien on IPW's Shares in ORL") to secure repayment of the Credit, the Corporation will be obligated to IPW to place a lien in favor of the lending party on an additional 80,000,000 NIS 1 par value each shares of ORL owned by the Corporation (hereinafter – "the Lien on the Corporation's Shares in ORL"), as additional security for repayment of the Credit, subject to the provisions of the agreement. The Lien on the Corporation's Shares in ORL will apply solely to the shares themselves, and not to the rights to receive dividends or to the voting rights in respect thereof. Exercise of the said right is subject to closing of the transaction between IPW and the "Bereshit" Fund, wherein a loan will be granted to IPW in the amount of NIS 120,000,000 and the consents of IPW's present lending bank to defer a payment in the amount of about NIS 32 million will enter into effect.

The lending party will be entitled to realize the Lien on the Corporation's Shares in ORL only after it has realized the Lien on IPW's Shares in ORL in full, and the full amount of the proceeds received as part of realization of the lien as stated is used for repayment of the Credit. If and to the extent a right arises to the lending party to realize the Lien on the Corporation's Shares in ORL, in whole or in part, the Corporation will be entitled vis-à-vis the lending party, instead of realization of the lien on the said shares in ORL, to pay the lending party the value of the ORL shares covered by the lien that the lending party is entitled to realize as stated, based on the price the ORL shares are traded on the stock exchange at that time. In addition, upon realization of the said liens, the lending party will be subject to a right of first refusal of the Corporation. To the extent the lending party realized the Lien on the Corporation's Shares in ORL, the Corporation will be entitled to receive from IPW shares of ORL in a number equal to the shares realized as stated. Upon recording of the lien in favor of the lending party, no debt, liability or obligation of any kind of the Corporation will be created, except the right of the lending party to realize the Lien on the Corporation's Shares in ORL.

Immediately after the date on which IPW actually receives amounts in the total aggregate sum of NIS 100 million in respect of one or more of the following: (a) dividends from ORL, or (b) amounts in respect of sale of IPW's shares in Avgol Industries 1953 Ltd. (hereinafter – "the Avgol Shares Held"), or (c) amounts in respect of credit provided to IPW and that is secured by the Avgol Shares Held (hereinafter – "the Entitling Amounts"), the full amount of the Lien on the Corporation's Shares in ORL will be released, and if IPW receives Entitling Amounts in a lower amount, immediately after the date on which these Entitling Amounts are received the Lien on the Corporation's Shares in ORL will be released in a partial and proportionate amount to that stated above. In any event, the Lien on the Corporation's Shares in ORL will be released in full upon the earlier of repayment of the Credit or at the end of 3 years from the signing date of the agreement.

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

E. (Cont.)

In exchange for actual provision of the Lien on the Corporation's Shares in ORL to secure repayment of the Credit taken out by IPW from the lending party, if and to the extent granted, IPW is to pay the Corporation an annual commission equal to the product of the amount of the unpaid Credit times the rate of the benefit which IPW received due to provision of the lien on the Corporation's shares in ORL, but not less than 1% – all as detailed in the agreement.

The period of the Corporation's commitment is three years from signing date of the agreement and it was conditioned such that up to recording of the Lien on the Corporation's Shares in ORL, IPW will not make, directly or indirectly, early repayment of loans, acquisition of new assets, provision of loans to companies directly or indirectly to IPW to its controlling shareholders or an investment in the said companies – all of this unless the Corporation's advance written consent for the said transaction was received.

F. Further to that stated in Note 22C2(viii) to the Annual Financial Statements, on January 26, 2012, the Yam Thetys Partnership notified ICL that it is forced to reduce the amount of gas it is supplying, due to depletion of the gas in the well, which it defined as an "Act of G-d" and that, so it appears, based on the data provided in the above-mentioned notice to ICL, the gas in the well of Yam Thetys will be depleted during 2013. The rate of reduction of the supply of gas from the Yam Thetys to ICL's plants between December 2011 and February 2012 amounted to about 40%. Subsequent to the date of the report, in April 2012, the rate of the reduction amounted to about 70%. As at the approval date of the financial statements, the amount of the reduction expected in the future is not known. ICL notified Yam Thetys that its notification does not meet the contractual requirements for declaration of an "Act of G-d", and that it demands to receive all the information and data, in accordance with its contractual right, in connection with the depletion in the reserve and that it expects from the partners in Yam Thetys to supply gas from other sources it owns. In addition, ICL with the assistance of its legal advisors, is examining the range of its available legal remedies pursuant to the agreement with the Yam Thetys Group.

In addition, subsequent to the date of the report, on April 22, 2012, East Mediterranean Gas S.A.E. (hereinafter – "EMG"), with which a subsidiary of ICL has signed an agreement for supply of natural gas to the power station it is considering to construct in Sdom, notified that it received a letter from Egyptian General Petroleum Corporation and Egyptian Natural Gas Holding Company ("EGPC/EGAS"), who are the suppliers of the natural gas to EMG, whereby, among other things, EGPC/EGAS request to cancel the gas supply agreement with EMG. In its notification, EMG contends that the cancellation notification it received, as stated, is not legally valid and lacks good faith and it continues to insist that EGPC/EGAS retract the cancellation notification. It is noted that in the agreement with EMG, ICL's subsidiary was granted an option up to June 30, 2012 to acquire an additional quantity of gas.

ICL and its legal advisors are examining EMG's notification and ICL's possible courses of action vis-à-vis EMG based on the agreement between them.

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

G. Further to that stated in Note 22C5(vi) to the Annual Financial Statements regarding an undertaking between O.P.C. Rotem Ltd. (in which the Corporation holds (indirectly) 80% of its shares) (hereinafter – "OPC") and EMG for acquisition of natural gas (hereinafter – "the Gas Agreement"), subsequent to the date of the report, EMG notified OPC that it received a letter from EGPC/EGAS, who are the Egyptian suppliers of the gas to EMG, whereby, among other things, the gas suppliers are seeking to cancel the agreement for supply of natural gas between them and EMG. EMG contends that the cancellation notification it received, as stated, is not legally valid and lacks good faith and it continues to insist that gas suppliers retract their notification.

The gas supply agreement is a precondition to withdrawal of monies under the financing agreement for construction of the power station of O.P.C. Rotem.

OPC and its legal advisors are examining EMG's notification and its possible courses of action vis-à-vis EMG in accordance with the agreement of undertaking they have signed.

H. Further to that stated in Note 22C4(viii) to the Annual Financial Statements, regarding the undertaking of ORL with EMG for supply of natural gas to the factories of ORL and its subsidiaries, subsequent to the date of the report, EMG notified ORL that it received a letter from EGPC/EGAS, who are the Egyptian suppliers of the gas to EMG, whereby, among other things, the gas suppliers are seeking to cancel the agreement for supply of natural gas between them and EMG. ORL has an agreement with an additional gas supplier for purposes of supply of gas to its factories however, even though ORL has signed, as stated, two agreements for supply of natural gas to its factories and the factories of its subsidiaries, as at the publication date of the financial statements, supply of the natural gas ORL requires for running its factories is only partial and is not regular, and ORL also uses liquid fuels, at a significantly higher cost than the cost of the natural gas. ORL is acting to utilize its legal rights vis-à-vis the natural gas suppliers with which it has contracted, in accordance with the agreements to which it is a party and, at the same time, it is examining its rights and possible courses of action vis-à-vis EMG in connection with the agreement for supply of the gas with it.

As at the publication date of the report, ORL was notified by the Ministry of Environmental Protection that taking into account the shortage of natural gas in the Israeli economy, it will be permitted to use crude oil as a fuel substitute up to the earlier of April 30, 2013 or until natural gas from the "Tamar" well arrives, based on the conditions provided in the approval.

I. Further to that stated in Note 22B2(iii) to the Annual Financial Statements, in January 2012, the Government approved the outline of principles for the permanent solution in connection with the rising of the water level in Pond 150 and it made the decisions required by the outline.

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

I. (Cont.)

On January 3, 2012, Man, Nature and Law – the Israeli Society for Protection of the Environment and the Movement for Quality of the Governance in Israel, filed a petition in the Supreme Court sitting as the High Court of Justice, for issuance of a conditional order and a request for an interim order against the Government of Israel, the Ministry of Finance and Dead Sea Works, regarding the decision of the Government of Israel. The Court scheduled the petitions for hearing on May 23, 2012, and did not deem it correct to issue an interim order as requested by the petitioners. On May 24, 2012, the High Court of Justice summarily dismissed the petition of Man, Nature and Law – the Israeli Society for Protection of the Environment and the Movement for Quality of the Governance in Israel for issuance of a conditional order and issuance of an interim order against the Government of Israel, the Ministry of Finance and Dead Sea Works, in connection with the decision of the Government of Israel on January 1, 2012 with respect to the permanent solution for the water level at the Dead Sea and the royalties, and also charged them for expenses to the respondents.

The total royalties paid to the government by Dead Sea Works (DSW) in the years 2011 and 2010, amounted to about $66 million and about $23 million, respectively. Subsequent to the date of the report, ICL paid additional royalties, in the amount of about $32.5 million in respect of the said years as a result of the agreements reached with respect to raising of the royalties' rate. Provisions for the all of the said amounts were included in the Annual Financial Statements.

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

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

A. Regarding transfer of an amount of about $24 million to Qoros as part of the business plan of the joint venture – see Note 5.A.5.

B. Regarding the reserve amount to ZIM – see Note 5.A.6.

C. Regarding contacts being carried on by ORL, subsequent to the date of the report, with the financing banks, for purposes of receiving relief and/or determination of new financial covenants up the end of the construction period of the Facility – see Note 5.D.1.

D. Subsequent to the date of the report, on May 6, 2012, S&P Maalot provided a notification to ZIM regarding reduction of the rating of the debentures to ilB from ilBB–, with a negative rating outlook.

E. Subsequent to the date of the report, on May 6, 2012, S&P Maalot provided a notification to ORL regarding reduction of ORL's rating to ilBBB+ from ilA—, with a stable rating outlook. At the same time, the rating was removed from the tracking list.

F. Regarding cancellation of the gas supply agreements between O.P.C., ORL and ICL with EMG – see Note 6F–H.

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

G. Subsequent to the date of the report, the Corporation notified Tower of its intention to convert all the capital notes issued by Tower to the Corporation into about 206 million shares of Tower. In addition, the Corporation notified Tower that at this stage it does not intend to register the shares for trading or to trade or sell the shares.

H. Subsequent to the date of the report, on April 20, 2012, the District Authority in China instructed the Administrative Land Bureau to reclaim from Qoros the right to use land located in Wuhu and to cancel the land use right certificate, and that the compensation in respect of cancellation of the said right belongs to the District Administrative Committee.

As at March 31, 2012, the book value of the land use right was about RMB 248 million (about $40 million). As at the approval date of the financial statements, Qoros reached an agreement with District Administrative Committee with respect to the amount of the compensation, which is higher than the book value by an insignificant amount, which Qoros will receive in consideration of return of the land use right.

Israel Corporation Ltd.

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

As at March 31, 2012

(Unaudited)

Israel Corporation Ltd.
Condensed Separate Information provided in
accordance with Regulation 38D of the Securities Regulations
(Periodic and Immediate Reports), 1970
As at March 31, 2012
Unaudited

Contents

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To the Shareholders of Israel Corporation Ltd.

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

Introduction

We have reviewed the separate-company interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970, of Israel Corporation Ltd. (hereinafter – "the Corporation") as at March 31, 2012 and for the period of three months ended on that date. The separate-company interim financial information is the responsibility of the Corporation's Board of Directors and Management. Our responsibility is to express a conclusion on the separate-company interim financial information based on our review.

We did not review the condensed interim financial information of an investee company, the investment in which is about $35 million as at March 31, 2012 and the Corporation's share in its loss is about $4 million for the period of three months ended March 31, 2012. The financial statements of this company were reviewed by other auditors whose review report was provided to us and our conclusion, insofar as it relates to amounts included in respect of this company, is based on the review report of the other auditors.

Scope of the Review

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

Conclusion

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

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

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

2. That stated in Notes 6B and 6H to the Corporation's consolidated financial statements regarding the dependency of an associated company on receipt of services from infrastructure companies and suppliers of natural gas.

3. That stated in Note 5D1 to the Corporation's consolidated financial statements, regarding non-compliance of an associated company with the financial covenants as at the date of the report, obtaining of waiver letters from the financing banks subsequent to the date of the report, and contacts being carried on subsequent to the date of the report between the associated company and the financing banks for purposes of receiving relief and/or determination of new financial ratios up to the end of the construction period of the Facility.

Somekh Chaikin
Certified Public Accountants (Isr.)

May 29, 2012

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at March 31, 2012
Condensed Interim Statements of Financial Position Information

	At March 31		At December 31
	2012	**2011**	**2011**
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Current Assets			
Cash and cash equivalents	**494**	491	476
Short-term deposits	**27**	37	247
Loans to investee companies	**90**	6	11
Other receivables and debit balances	**73**	47	1
Derivative instruments	**65**	88	55
Income taxes receivable	**4**	34	13
Total current assets	**753**	703	803
Non-Current Assets			
Investments in investee companies	**3,167**	*3,286	3,218
Investments in other companies	**3**	10	3
Loans to investee companies	**635**	579	610
Debit balances, including derivative instruments	**310**	318	276
Total non-current assets	**4,115**	4,193	4,107
Total assets	**4,868**	4,896	4,910

* Insignificant adjustment – see Note 2E to the Corporation's consolidated financial statements.

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at March 31, 2012
Condensed Interim Statements of Financial Position Information

	At March 31		At December 31
	2012	**2011**	**2011**
	(Unaudited)		**(Audited)**
	In Millions of U.S. Dollars		
Current Liabilities			
Current maturities in respect of non-current liabilities	**517**	423	398
Other payables and credit balances	**18**	21	32
Dividend payable	**120**	70	–
Derivative instruments	**34**	35	31
Total current liabilities	**689**	549	461
Non-Current Liabilities			
Loans from banks	**693**	493	686
Debentures	**1,120**	1,481	1,195
Long-term liabilities, including derivative instruments	**74**	66	103
Total non-current liabilities	**1,887**	2,040	1,984
Total liabilities	**2,576**	2,589	2,445
Equity			
Share capital and premium	**285**	285	285
Capital reserves	**118**	143	98
Capital reserve for transactions with controlling shareholder	**147**	102	137
Retained earnings	**1,742**	*1,777	1,945
Total equity attributable to the owners of the Corporation	**2,292**	2,307	2,465
Total liabilities and equity	**4,868**	4,896	4,910

* Insignificant adjustment – see Note 2E to the Corporation's consolidated financial statements.

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

Approval date of the financial statements: May 29, 2012

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at March 31, 2012
Condensed Interim Statements of Income Information

	For the		
	Three Months Ended March 31		Year Ended December 31
	2012	2011	2011
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Administrative and general expenses	**(4)**	(6)	(19)
Other income	**6**	8	19
Operating income	**2**	2	–
Financing expenses	**(58)**	**(83)	(230)
Financing income	**36**	39	128
Financing expenses, net	**(22)**	(44)	(102)
Share in income (losses) of investee companies, net	**(52)**	*(15)	285
Income before taxes on income	**(72)**	(57)	183
Taxes on income	**10**	–	32
Income (loss) for the period attributable to the owners of the Corporation	**(82)**	(57)	151

* Insignificant adjustment – see Note 2E to the Corporation’s consolidated financial statements.
** Reclassified.

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at March 31, 2012
Condensed Interim Statements of Comprehensive Income Information

	For the Three Months Ended March 31		Year Ended December 31
	2012	**2011**	**2011**
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Income (loss) for the period	**(82)**	*(57)	151
Components of other comprehensive income			
Effective portion of the change in fair value of cash flow hedges	**–**	(1)	(3)
Net change in fair value of cash flow hedges transferred to the statement of income	**1**	1	2
Net change in fair value of financial assets available for sale	**–**	(4)	(4)
Net changes in fair value of available for sale financial assets transferred to the statement of income	**–**	6	6
Other comprehensive income (loss) in respect of investee companies, net	**20**	33	(41)
Total other comprehensive income (loss) for the period, net of tax	**21**	35	(40)
Total comprehensive income (loss) for the period attributable to the owners of the Corporation	**(61)**	(22)	111

* Insignificant adjustment – see Note 2E to the Corporation's consolidated financial statements.

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at March 31, 2012
Condensed Interim Statements of Cash Flows Information

	For the Three Months Ended March 31		For the Year Ended December 31
	2012	**2011**	**2011**
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Cash flows from operating activities			
Income (loss) for the period	**(82)**	*(57)	151
Adjustments:			
Financing expenses, net	**22**	38	89
Share in losses (income) of investee companies, net	**52**	*15	(285)
Capital gains, net	**(6)**	(8)	(19)
Share-based payment transactions	**2**	3	11
Loss from investment in securities available for sale	**1**	6	13
Taxes on income	**10**	–	32
	(1)	(3)	(8)
Change in receivables and income tax receivable	**–**	(11)	(17)
	(1)	(14)	(25)
Dividend received	**–**	88	515
Net cash provided by (used in) operating activities	**(1)**	74	490
Cash flows from investing activities			
Investments in investee and other companies	**–**	–	(55)
Short-term deposits and loans, net	**142**	15	(200)
Provision of long-term loans to investee companies	**(106)**	(43)	(101)
Collection of long-term loans from investee companies	**–**	29	29
Interest received	**8**	3	10
Proceeds from sale of derivatives, net	**15**	1	24
Net cash provided by (used in) investing activities	**59**	5	(293)
Cash flows from financing activities			
Acquisition of rights non-controlling interests	**(8)**	–	–
Dividend paid	**–**	–	(70)
Receipt of long-term loans and issuance of debentures	**198**	–	232
Repayment of long-term loans and debentures	**(187)**	(12)	(238)
Interest paid	**(43)**	(35)	(95)
Payment for settlement of derivatives used for hedging	**(1)**	(1)	–
Net cash used in financing activities	**(41)**	(48)	(171)
Net increase in cash and cash equivalents	**17**	31	26
Cash and cash equivalents at the beginning of the period	**476**	458	458
Effect of exchange rate fluctuations on balances of cash and cash equivalents	**1**	2	(8)
Cash and cash equivalents at the end of the period	**494**	491	476

* Insignificant adjustment – see Note 2E to the Corporation's consolidated financial statements.

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at March 31, 2012
Additional Information

1. General

The interim separate-company financial information is presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970, and the Tenth Addendum to the Securities Regulations (Periodic and Immediate Reports), 1970, regarding separate-company financial information of an entity. The interim separate-company financial information should be read together with the separate-company financial information as at December 31, 2011 and for the year then ended and together with the consolidated financial statements.

In this separate-company interim financial information:

A. The Corporation – Israel Corporation Ltd.

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

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

2. Commitments and Significant Transactions with Investee Companies

A. In January 2012, the Corporation acquired 733,333 shares of ICL, constituting about 0.06% of ICL's issued share capital, for a consideration of about $8 million.

B. In March 2012, the Corporation transferred, through a subsidiary, the amount of about $36 million to Qoros Automotive Co. Ltd. (hereinafter – "Qoros") as part of the joint venture's business plan. For additional details regarding the joint venture – see Note 11A3(ii) to the annual consolidated financial statements..

C. Subsequent to the date of the report, in May 2012, the Corporation transferred, through a subsidiary, the amount of about $24 million to Qoros as part of the joint venture's business plan.

D. Further to that stated in Note 22C3(a)(6) to the annual consolidated financial statements, the Corporation activated the security net and transferred $50 million, the full amount of its commitment under the security net. Concurrently, the controlling shareholders also transferred $50 million to ZIM, the full amount of their share under the security net.

E. Further to that stated in in Note 22C3(a)(7) to the annual consolidated financial statements subsequent to the period of the report, the Corporation transferred $50 million to ZIM as a loan convertible into ZIM shares, in accordance with the decision of the Corporation's General Meeting on November 3, 2009, and approval of the Corporation's Audit Committee and Board of Directors regarding provision of a framework of $50 million, the full amount of the reserve.

F. Subsequent to the date of the report, the Corporation notified Tower of its intention to convert all the capital notes issued by Tower to the Corporation into about 206 million shares of Tower. In addition, the Corporation notified Tower that at this stage it does not intend to register the shares for trading or to trade or sell the shares.

3. Dividend

On March 28, 2012, the Corporation's Board of Directors decided to distribute a dividend in the amount of $120 million – about $15.6 per share. The dividend was paid on May 1, 2012.

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

Israel Corporation Ltd.

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

As at March 31, 2012

(Unaudited)

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

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

For this purpose, the members of management are:

Nir Gilad, CEO;

Avisar Paz, CFO;

Eran Sarig, Deputy CEO of Business and Strategic Development;

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

Eli Goldstein, Deputy CEO of Communications and Regulations.

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

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

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

In the Annual Report regarding the effectiveness of the internal control over the financial reporting and the disclosure, which was attached to the Periodic Report for the period ended December 31, 2011 (hereinafter – "the Latest Annual Report regarding the Internal Control"), the Board of Directors and Management evaluated the Corporation's internal control; based on this evaluation, the Corporation's Board of Directors and Management reached the conclusion that the internal control as stated, as at December 31, 2011, is effective.

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

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

Management Representation

Declaration of the CEO

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

I, Nir Gilad, declare that:

(1) I have examined the interim financial statements of Israel Corporation Ltd. (hereinafter – "the Corporation") as at March 31, 2012 (hereinafter – "the Statements").

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

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

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

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

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

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

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

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

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

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

May 29, 2012

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Nir Gilad, CEO

Management Representation

Declaration of the most Senior Officer in the Finance Area

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

I, Avisar Paz, declare that:

(1) I have examined the interim financial statements and the other financial information included in in the statements for interim periods of Israel Corporation Ltd. (hereinafter – "the Corporation") as at March 31, 2012 (hereinafter – "the Statements").

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

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

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

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

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

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

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

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

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

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

May 29, 2012

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Avisar Paz, CFO