

Israel Corporation Ltd.

**Condensed Consolidated Interim
Financial Statements**

As at March 31, 2017

(UNAUDITED)

**This English Version of the Report is for the Convenience of the Reader.
The Hebrew Version of the Report is the Binding Version.**

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Israel Corporation Ltd.

Report of the Corporation's Board of Directors

For the Three Months Ended March 31, 2017

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

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

For additional details regarding the transaction for restructuring the Corporation's holdings – see also Note 5 to the annual financial statements.

Commencing from the completion date of the Transaction, the Corporation operates to advance and develop its existing businesses in and outside of Israel. The Corporation operates through two main investee companies: Israel Chemicals Ltd. (hereinafter – “ICL”) and Oil Refineries Ltd. (hereinafter – “ORL”).

The Corporation is involved in management of the Group companies through directors serving on the Boards of Directors of the Corporation's investee companies.

This Directors' Report is submitted as part of the interim financial statements for the period ended March 31, 2017. The report was prepared in accordance with the Securities Law (Periodic and Immediate Reports), 1970, and on the assumption that the reader is also in possession of the interim financial statements for the period ended March 31, 2016, and the Periodic Report for 2016.

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

1. On January 5, 2017, the Corporation issued, by means of expansion of the debentures (Series 11), NIS 790,170,000 par value debentures (Series 11). The proceeds from the issuance, net of the issuance expenses, amounted to about NIS 804 million (about \$208 million). Standard & Poor's Maalot gave notice of provision of a rating of i1A for the above-mentioned expansion debentures (the Corporation was rated i1A/stable). For additional details – see Note 16.E.1(a) to the annual consolidated financial statements.
2. Further to that stated in Note 20B to the annual consolidated financial statements, subsequent to the date of the report, on April 30, 2017, the District Court in Tel-Aviv-Jaffa accepted that request for certification of the filing of a derivative claim against the Corporation's controlling shareholders, the Corporation's former CEO, the Corporation's CEO, the Legal Advisor and Corporation Secretary and the former Vice-President of Business Development (hereinafter together – “the Officers”), the subject matter of which is bonuses paid to the Officers by the controlling shareholders in respect of completion of the distribution transaction, which is the subject of a Transaction Report of the Corporation, and determined, among other things, dates for commencement of the proceedings in the claim in the Corporation's name by the requesting party. For additional details – see Note 6.A.6 to the interim consolidated financial statements.
3. For details regarding the Corporation's liabilities – see the Immediate Report regarding the total liabilities based on repayment date that was published on March 24, 2017 (Reference No. 2017-01-052962). The information included therein is presented in this Report by means of references.

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

Israel Corporation Ltd.

FINANCIAL POSITION AND RESULTS OF OPERATIONS

- The total sales for the three-month period ended March 31, 2017 amounted to about \$1,295 million, compared with about \$1,265 million in the corresponding period last year.
- The total net income attributable to the owners of the Corporation for the three-month period ended March 31, 2017 amounted to about \$7 million, compared with net income about \$9 million in the corresponding period last year.
- The total assets, as at March 31, 2017, amounted to about \$10,518 million, compared with about \$10,930 million, as at March 31, 2016, and compared with about \$10,423 million, as at December 31, 2016.
- The current assets net of current liabilities, as at March 31, 2017 amounted to about \$920 million, compared with about \$1,040 million as at March 31, 2016, and compared with about \$913 million, as at December 31, 2016.
- The balance of the non-current assets, as at March 31, 2017 amounted to about \$7,004 million, compared with about \$7,386 million as at March 31, 2016, and compared with about \$7,077 million, as at December 31, 2016.
- The non-current liabilities, as at March 31, 2017, amounted to about \$5,626 million, compared with about \$5,667 million, as at March 31, 2016, and compared with about \$5,729 million, as at December 31, 2016.
- The total equity as at March 31, 2017 amounted to about \$2,298 million and the total equity attributable to the owners of the Corporation amounted to about \$826 million, compared with equity of \$2,759 million and total equity attributable to the owners of the Corporation of \$985 million as at March 31, 2016, and compared with total equity of about \$2,261 and total equity attributable to the owners of the Corporation of about \$804 million as at December 31, 2016.

Set forth below are the results of the Group companies in the period January–March 2017:

- ICL finished the period of the report with income of about \$68 million, compared with income of about \$66 million in the corresponding period last year.
- Oil Refineries Ltd. (hereinafter – “ORL”), which applies IFRS 9 (2013) in its financial statements, finished the period of the report with income of about \$19 million, compared with income of about \$28 million in the corresponding period last year..

Without the impact of application of IFRS 9 (2013), ORL finished the period of the report with income of about \$19 million, compared with income of about \$37 million in the corresponding period last year.

Israel Corporation Ltd.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

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

	Three months ended March 31	
	2017	2016
	(\$ Millions)	
Composition of the Corporation's results attributable to the owners:		
ICL	33	32
ORL	8	14
Amortization of excess cost	(4)	(1)
Financing, administrative, general and other expenses of the Corporation's headquarters	(23)	(34)
Loss from re-measurement to fair value of collar options (1)	(6)	(7)
Tax benefit (taxes on income) of the Corporation's headquarters	<u>(1)</u>	<u>5</u>
	<u>7</u>	<u>9</u>

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

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

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

As at March 31, 2017, the total financial liabilities of the Corporation and of the wholly owned and controlled headquarters companies (hereinafter – “the Headquarters Companies”) amounted to about \$2,215 million. The balance of the fair value of the options in the financial transaction (hereinafter – “the Collar Options”) economically reduces the liabilities by about \$63 million and the balance of the fair value of the currency and interest SWAP transactions, economically reduces the liabilities by about \$25 million.

As at the date of the report, the investments of the Corporation and of the Headquarters Companies in liquid assets amounted to about \$779 million. The amounts are invested in short-term deposits and about \$60 million thereof are deposited as collateral in favor of loans. Subsequent to the date of the report, the Corporation released the amount of about \$60 million that was deposited as collateral in favor of loans. For additional details – see Note 5.A.3 to the condensed consolidated interim financial statements.

The net financial liabilities of the Corporation and of the Headquarters Companies as at the date of the report was about \$1,348 million, compared with net debt balances of about \$1,536 million and about \$1,379 million as at March 31, 2016 and as at December 31, 2016, respectively. As at the date of the report, the net financial liabilities of the headquarters companies standing alone amounted to about \$227 million.

In September 2014, the Corporation entered into a financial transaction with financial entities, in connection with 36.2 million shares of ICL, which were loaned to the financial entities. As part of the transaction, the financial entities provided the Corporation with an initial amount of about \$191 million, which is essentially a loan. Closing of the financial transaction is being executed in increments during a period of three years, commencing from the end of 2016. Accordingly, and subject to the terms of the financial transaction, during the quarter the Corporation chose not to receive return of the transaction shares and it was credited for their value against payment of the loans and the interest accrued (hereinafter – “the Physical Settlement”). For additional details – see Note 16.E.(1)(h) to the annual financial statements and Note 5.a.2 to the condensed consolidated interim financial statements.

Israel Corporation Ltd.

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

The balances of the loan, including accrued interest, as at March 31, 2017, March 31, 2016 and December 31, 2016, which is included in the Corporation's net debt, amounted to about \$179 million, \$205 million and about \$198 million, respectively.

As at the date of the report, the balance of the loan granted to Kenon as part of the credit framework is about \$227 million (including accrued interest of \$27 million). For additional details – see Note 11 to the annual financial statements.

In the period of the report, the Corporation and the Headquarters Companies repaid \$217 million, of which partial payment of the debentures (Series 7 and Series 9) (net of hedging transactions), in the amount of about \$212 million. Payments of principal and interest in respect of debentures, in the amount of about \$60 million, were postponed in accordance with the provisions of the trust certificates to January 1, 2017, since December 31, 2016 was not a business day.

On January 5, 2017, the Corporation issued, by means of expansion of the U.S. dollar-linked debentures (Series 11), NIS 790,170,000 par value debentures (Series 11). The proceeds from the issuance, net of the issuance expenses, amounted to about \$208 million. As at March 31, 2017 the corporation was in compliance with the financial covenants determined. For additional details – see Note 16.E.1(a) to the annual consolidated financial statements. For details regarding the Corporation's financial covenants – see Note 16.C.1 to the annual consolidated financial statements.

In addition, from time to time, the Corporation and the Headquarters Companies extend the repayment dates of long-term loans. As at the date of the report, the average duration of the balance of the loans and debentures of the Corporation and the Headquarters Companies is about 3 years.

Subsequent to the date of the report, the Corporation made early repayment of a loan, in the amount of \$50 million, and extended the repayment date of long-term loans, in the amount of \$193 million for a period of 3 years. For additional details – see Note 5.A.3 to the condensed consolidated interim financial statements.

During the period of the report, the Corporation and the Headquarters Companies received a dividend, net of tax, from ICL, in the amount of about \$27 million, and the corporation received a dividend, net of tax, from ORL, in the amount of about \$30 million.

On November 22, 2016, Standard & Poor's Maalot, announced a reduction of the rating from ilA+/Negative to ilA/stable, due to erosion of the consolidated debt coverage ratio. The rating outlook is stable. For additional details – see Note 16.E.(1) to the annual consolidated financial statements.

On January 4, 2017, Standard & Poor's Maalot, announced provision of a rating of ilA to debentures in the aggregate scope of up to NIS 1 billion par value that are to be issued by Israel Corporation Ltd. (ilA/stable) as part of expansion of the debentures (Series 11).

Israel Corporation Ltd.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

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

ISRAEL CHEMICALS LTD.

	1-3/2017		1-3/2016		1-12/2016	
	\$ millions	% of sales	\$ millions	% of sales	\$ millions	% of sales
Sales	1,295	–	1,265	–	5,363	–
Gross profit	358	28	366	29	1,660	31
Operating income (loss)	116	9	107	8	(3)	–
Adjusted operating income	116	9	115	9	582	11
Net income (loss) attributable to ICL's shareholders	68	5	66	5	(122)	–
Adjusted net income attributable to ICL's shareholders*	68	5	85	7	451	8
Adjusted EBITDA* (1)	218	17	223	18	1,051	20
Cash flows from operating activities	195	–	222	–	966	–

(1) Adjusted EBITDA for the period of activity:

Calculation of the adjusted EBITDA is made as follows:

	1-3/2017	1-3/2016	2016
	\$ millions		
Net income (loss) attributable to ICL's shareholders	68	66	(122)
Depreciation and amortization	94	99	401
Financing expenses, net	14	28	132
Taxes on income	42	22	55
Adjustments*	<u>–</u>	<u>8</u>	<u>585</u>
Total adjusted EBITDA	<u>218</u>	<u>223</u>	<u>1,051</u>

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

Israel Corporation Ltd.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

Following is a brief summary of the financial results of the Corporation and the principal investees:
(Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

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

Adjustments to reported operating income and net income

	<u>1-3/2017</u>	<u>1-3/2016</u>	<u>2016</u>
	<u>\$ millions</u>		
Operating income (loss)	116	107	(3)
Capital loss (1)	–	1	1
Write down and impairment of assets (2)	–	–	489
Provision for early retirement and dismissal of employees (3)	–	6	39
Provision in respect of prior periods resulting from an arbitration decision (4)	–	–	13
Retroactive electricity charges (5)	–	–	(16)
Provision for legal claims (6)	–	1	8
Provision for historical waste removal (7)	–	–	51
Total adjustments to operating income (loss)	–	8	585
Total adjusted operating income	<u>116</u>	<u>115</u>	<u>582</u>
Net income (loss) attributable to the shareholders of ICL	68	66	(122)
Total adjustments to operating income (loss)	–	8	585
Adjustments to financing expenses (8)	–	–	38
Total tax impact of the above operating income and financing expenses adjustments	–	(2)	(81)
Tax assessment and deferred tax adjustments (9)	–	13	36
adjustments attributable to the non-controlling interests	–	–	(5)
Total adjusted net income attributable to the shareholders of ICL	<u>68</u>	<u>85</u>	<u>451</u>

- (1) Capital loss from sale of non-core businesses of ICL.
- (2) Impairment in value and write down of assets with respect to the write down of assets (including expected closure cost) relating to the global ERP project (Harmonization Project), in the amount of \$282 million, write down of assets relating to discontinuance of the activities of Allana Afar in Ethiopia (including expected closure cost), in the amount of \$202 million, and impairment in the value of assets of a subsidiary of ICL in the United Kingdom, in the amount of \$5 million.
- (3) Provisions for early retirement and dismissal of employees in accordance with ICL's comprehensive global efficiency plan from 2012 in its production facilities throughout the world. In 2016, with respect to ICL's facilities in Israel at the Bromine companies (see also the first quarter of 2016), ICL's facilities in the United Kingdom and the facilities of the joint venture in China (reflected also in the non-controlling interests' adjustment below).
- (4) Provision in connection with prior periods in respect of royalties arbitration in Israel.
- (5) Reversal of provision in connection with prior periods in respect of costs of management services of the electricity system in DSW and ICL Rotem.
- (6) Provision for legal claims, mainly regarding two claims settled in 2016 relating to prior periods. In the first quarter of 2016, stemming from the settlement agreement that ended the class action brought by the farmers in Israel regarding potash prices, and in the third quarter of 2016, stemming mainly from the arbitration award ending the long commercial price dispute with Haifa Chemicals.
- (7) Provision for removal of waste in respect of prior periods. In 2016, purification and removal of historical waste from the potash activities in Spain as a result of decisions made by the Spanish authorities in connection with the plan for treating the salt pile in the Sallent site leading to plan changes mainly related to the water pumping process involved in the salt treatment.
- (8) Interest and linkage expenses in connection with the royalties' arbitration and tax assessments in Israel relating to prior periods. \$26 million in connection with the royalties' arbitration and \$12 million relating to a tax assessment in Israel.
- (9) Tax assessments in Israel and Belgium (see also the first quarter of 2016) relating to prior periods.

Israel Corporation Ltd.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

Following is a brief summary of the financial results of the Corporation and the principal investees: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

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

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

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

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

Israel Corporation Ltd.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

Following is a brief summary of the financial results of the Corporation and the principal investees:
(Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

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

Sales

Analysis of sales

	<u>\$ millions</u>	
Total sales – 1st quarter 2016	1,265	
Quantity	115	
Price	(55)	
Exchange rate	<u>(30)</u>	
Total sales – 1st quarter 2017	<u>1,295</u>	

Quantity – the increase derives mainly from clear brines solutions in ICL Industrial Products, mainly to North America, from phosphoric acid in ICL Phosphate mainly related to the increase in YPH JV, and an increase in potash quantities sold, mainly to India and the USA.

Price – the decrease derives mainly from a decline in the selling prices of phosphate fertilizers and phosphoric acid in ICL Phosphate, together with a decline in the selling prices of acids in ICL Advance Additives and a decline in potash selling prices.

Exchange rate – the decrease stems mainly from the devaluation of the euro and the Chinese yuan against the dollar.

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

	1–3/2017		1–3/2016	
	\$ millions	%	\$ millions	%
Europe	534	41	559	44
North America	294	23	267	21
Asia	282	22	239	19
South America	98	8	92	7
Rest of the world	<u>87</u>	<u>6</u>	<u>108</u>	<u>9</u>
Total	<u>1,295</u>	<u>100</u>	<u>1,265</u>	<u>100</u>

The breakdown of the sales in the first quarter of 2017 shows a decrease in sales to Europe, stemming mainly from a decline in the selling prices of potash and phosphate products together with a decline in the quantities of phosphate rock sold. This decrease was partly offset by an increase in sales of ICL Industrial Products. The increase in sales to North America stems mainly from an increase in the quantities of potash and clear brines solutions sold, partly offset by a decrease in sales due to divestiture of non-core businesses last year. The increase in sales to Asia stems mainly from an increase in quantities sold of potash, phosphoric acid, bromine-based flame retardants and specialty agriculture products. The increase in sales to South America stems mainly from an increase in the quantities of phosphate fertilizers sold, and was partly offset by a decrease in potash quantities sold.

Israel Corporation Ltd.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

Following is a brief summary of the financial results of the Corporation and the principal investees:
(Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

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

Analysis of operating expenses

	<u>\$ millions</u>	
Total operating expenses – 1st quarter 2016	1,158	
Quantity	75	
Exchange rate	(20)	
Raw materials	(25)	
Energy	–	
Transportation	20	
Other	(29)	
Total operating expenses – 1st quarter 2017	<u>1,179</u>	

Quantity – the increase in quantities-related costs derives mainly from the increased quantities sold, mainly in ICL Phosphate and ICL Industrial Products.

Exchange rate – the decrease stems mainly from the devaluation of the euro and the pound against the dollar, partly offset by the upward revaluation of the Israeli shekel against the dollar.

Raw materials – the decrease stems mainly from a decline in sulfur prices (used in ICL Phosphate and ICL Advanced Additives products) and a decline in commodity fertilizers prices (used in ICL Specialty Fertilizers).

Transportation – the increase stems mainly from an increase in transportation prices and from the increase in quantities sold.

Other – the decrease stems mainly from a capital gain due to the sale of an office building and insurance income in Israel, together with early retirement expenses recorded in the corresponding quarter last year. This decrease was partly offset by higher royalties' expenses and write-down of inventories.

Financing expenses, net

The net financing expenses in the first quarter of 2017 amounted to \$14 million, compared with \$28 million in the corresponding quarter last year – a decrease of \$14 million. The decrease includes a decline of about \$16 million deriving mainly from an increase of the income in respect of the fair value of foreign currency hedging transactions, energy and marine shipping, net, partly offset by revaluation of the net liabilities, and a decrease in the interest expenses due to a decrease in the short term and long term debt. On the other hand, there was an increase in the financing expenses, in the amount of about \$2 million stemming mainly from exchange rate differences relating to provisions for employee benefits.

Tax expenses

The tax expenses in the first quarter of 2017 amounted to \$42 million, compared with tax expenses of \$22 million in the corresponding quarter last year. The reported tax expenses in the current quarter were impacted mainly from tax expenses due to differences in the measurement base for tax purposes and the measurement base thereof for financial reporting purposes as a result of the strengthening of the Israeli shekel against the dollar. The effective tax rate, without the impact of the above-mentioned differences, is about 29%, compared with an effective tax rate of about 24%, in the corresponding quarter last year. The increase in the effective tax rate stems mainly from application of the Israeli Natural Resources Tax to the bromine and potash activities in Israel.

Israel Corporation Ltd.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

Following is a brief summary of the financial results of the Corporation and the principal investees: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Main developments and the business environment in ICL:

Specialty Solutions

Industrial Products

- Continued favorable bromine pricing in China partially offset by the devaluation of the Chinese yuan compared to the dollar.
- Higher sales and continued transition from HBCD to FR-122P in Europe.
- Stable and moderately growing demand for bromine-based flame retardants. Sales were higher, mainly as a result of low bromine availability in China. ICL Industrial Products is continuing to work on securing long term supply agreements for bromine-based flame retardants.
- Higher sales of MERQUEL® (Mercury emission control products) supported by regulation implemented in the USA in mid-2016.
- Stable demand for bromine in the Butyl rubber industry.
- Higher sales of phosphorous-based flame retardants as a result of supply interruptions several Chinese producers have faced. Nevertheless, Chinese production is stabilizing. The Company is working to secure annual contracts with customers in western markets.
- Demand for clear brine solutions continues to be soft as result of the low level of oil prices. Sales of clear brines solutions during the first quarter of 2017 were higher compared to the corresponding quarter last year as a result of non-recurring sales. Overall 2017 sales are expected to be at the same level as 2016.¹

¹ The estimates regarding future trends in this paragraph constitute “forward-looking” information, and they are based on, among other things, estimates of ICL’s management based on its familiarity with the situation in the markets and on quotes of the expected prices for 2017 to the best of the knowledge of ICL’s management and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, fluctuations in the world commodity markets, including, among other things, changes in the levels of supply and demand, oil prices and input prices and they may be impacted by changes in regulation and actions taken by governments, manufacturers and consumers. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

Israel Corporation Ltd.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

Following is a brief summary of the financial results of the Corporation and the principal investees:
(Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

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

Specialty Solutions (Cont.)

Advanced Additives

Total Advanced Additives performance was favorable compared to the corresponding quarter last year and was impacted by several factors:

- Global sales of acids and salts declined slightly compared to the corresponding quarter last year, driven by the highly competitive market environment. By region, higher acid volumes in Europe and favorable sales development of defined phosphate salts in North America partially offset price pressure resulting from declining merchant grade acid (MGA) market prices versus the previous year. In Asia, the successful growth strategy of YPH JV coupled with a moderate market price increase in China led to favorable revenue development. In South America, the economic downturn in Brazil led to lower demand in the cleaning and beverage markets, though this was mostly offset by positive developments of exports into other South American countries.
- In the Specialty Minerals sub-business line, solid sales in technical applications combined with new sales to a major customer, offset weak magnesium chloride sales of de-icing products following the mild winter. As a result sales were flat compared to the prior year.
- P2S5 sales improved compared to the corresponding quarter last year. Sales in the first quarter of 2017 increased slightly driven by higher demand from key customers in North America and Europe. Sales were also favorably impacted by higher demand for insecticides due to the start of the summer season, in contrast to a destocking cycle and plant turnarounds of major customers in the corresponding quarter last year. As a result, volume was up considerably year-over-year.
- The Fire Safety sub-business line was positively influenced by wildfire activity in South America, resulting in increased sales of liquid concentrates to Chile and Argentina. As a result, fire safety sales were favorable compared to the corresponding quarter last year.

Israel Corporation Ltd.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

Following is a brief summary of the financial results of the Corporation and the principal investees: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

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

Specialty Solutions (Cont.)

Food Specialties

- ICL Food Specialties' sales volume in the first quarter was lower compared to the corresponding quarter last year, driven mostly by lower sales of dairy proteins.
- Sales volume of dairy proteins declined as a result of new local regulations for organic infant food in China, aimed at reducing the wide product portfolio currently available in the market in order to gain tighter control, and the subsequent destocking activity of a customer delivering proteins to China. Nevertheless, the general assessment of the Chinese infant food market remains positive and ICL Food Specialties was able to partially offset the decline through growth in other customer relationships existing in the growing Chinese market. First signs of recovery are expected during the second half of the year.²
- ICL Food Specialties' phosphates business remained stable in the quarter as competitive pressure in North America and Europe was offset by a recovery in sales in Eastern Europe. The business line announced price increases in North America starting in the second quarter of 2017, with the full impact of the pricing adjustments expected to be realized beginning in the third quarter.³
- Sales volume of integrated solutions and new products continued to grow compared to the first quarter of 2016 as the business line continues to launch new products to the dairy, beverage, meat, poultry and seafood markets in all regions. Order intake rates are increasing as well, adding to the positive outlook for the rest of 2017.⁴

² The estimates regarding future trends in this paragraph constitute “forward-looking” information, and they are based on, among other things, estimates of ICL’s management based on its familiarity with the situation in the markets and on quotes of the expected prices for 2017 to the best of the knowledge of ICL’s management and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, fluctuations in the world commodity markets, including, among other things, changes in the levels of supply and demand and input prices and they may be impacted by changes in regulation and actions taken by governments, manufacturers and consumers. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

³ The estimates regarding future trends in this paragraph constitute “forward-looking” information, and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, fluctuations in the world commodity markets, particularly in the target markets for ICL’s markets, including, among other things, changes in the levels of supply and demand, competition and changes in regulation, and may be impacted by actions taken by governments, manufacturers and consumers. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

⁴ The estimates regarding future trends in this paragraph constitute “forward-looking” information, and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, fluctuations in the world commodity markets, particularly in the target markets for ICL’s markets, including, among other things, changes in the levels of supply and demand, competition and changes in regulation, and may be impacted by actions taken by governments, manufacturers and consumers. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

Israel Corporation Ltd.

- ICL Food Specialties' results were further impacted by the devaluation of several currencies against the dollar, mainly the euro, the pound and the Mexican peso.

Israel Corporation Ltd.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

Following is a brief summary of the financial results of the Corporation and the principal investees:
(Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

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

Specialty Solutions (Cont.)

Results of operations for the period January – March 2017 (millions of dollars)

	<u>Industrial Products</u>	<u>Advanced Additives</u>	<u>Food Specialties</u>	<u>Eliminations</u>	<u>Total</u>	
Total sales in Q1 2016	224	208	162	(10)	584	
Quantity	50	20	(20)	5	55	↑
Price	(5)	(10)	–	–	(15)	↓
Exchange rate	<u>(3)</u>	<u>(5)</u>	<u>(4)</u>	<u>1</u>	<u>(11)</u>	↓
Total sales in Q1 2017	<u>266</u>	<u>213</u>	<u>138</u>	<u>(4)</u>	<u>613</u>	

Quantity – the increase derives mainly from an increase in clear brine solutions quantities sold together with bromine-based flame retardants in ICL Industrial Products and from an increase in quantities sold in the P2S5 and acids sub-business lines of ICL Advanced Additives. This increase was partly offset by the decrease in dairy protein quantities sold in ICL Food Specialties (which was slightly offset by an increase in quantities of new products sold). See also ‘Significant highlights and business environment’ in the ICL section above.

Price – the decrease stems mainly from a different products’ mix of clear brine solutions sold in ICL Industrial products and a decrease in the selling prices of acids in ICL Advanced Additives.

Exchange rate – the decrease stems mainly from the devaluation of the euro against the dollar.

Analysis of operating income

	<u>\$ millions</u>	
Total operating income – 1st quarter 2016	106	
Quantity	35	↑
Price	(15)	↓
Exchange rate	(5)	↓
Raw materials	10	↑
Energy	–	↔
Transportation	(1)	↓
Other	<u>(15)</u>	↓
Total operating income – 1st quarter 2017	<u>115</u>	

Quantity – the increase stems mainly from the quantities of clear brines solutions and bromine-based flame retardants sold in ICL Industrial Products combined with P2S5 products in ICL Advanced Additives.

Price – the decrease stems mainly from lower selling prices of acids in ICL Advanced Additives and different products mix of clear brines solutions sold in ICL Industrial Products.

Exchange rate – the decrease stems mainly from devaluation of the euro against the dollar.

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

Other – the decrease derives, among others, from an increase in royalties paid as a result of the increase in sales.

Israel Corporation Ltd.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

Following is a brief summary of the financial results of the Corporation and the principal investees: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

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

Essential Minerals

Review of the business environment

- After a lackluster market performance in 2016, the consensus suggests that economic activity will pick up pace in 2017 and 2018, especially in the emerging markets and developing economies. However, there is a wide range of possible outcomes with respect to the projections, given the uncertainty regarding the policy stance of the new USA administration and its global ramifications. The assumptions underpinning the forecast should be more specific by the time of publication of the April-May 2017 World Economic Outlook, as more clarity is gained regarding the USA policies and their implications on the global economy.⁵
- Based on the WASDE report published by the USDA in April 2017, a small decrease is expected in the ratio of the inventories of grains to annual consumption, to 24.6% at the end of the agricultural 2016/2017 year, compared with 24.9% at the end of the 2015/2016 agricultural year, and an increase from a level of 23.6% in the 2014/2015 agricultural year.⁶
- Favorable weather conditions in the growing regions along with increased planted areas, mainly in Brazil, kept crop prices unchanged. In the first quarter of 2017, potash prices in the spot markets increased globally from their low levels in the second half of 2016 and are continuing to be supported by strong demand and limited supply. In the beginning of the first quarter of 2017, the prices of phosphate fertilizers increased due to high demand in China, which absorbed most of the Chinese production. However, towards the end of the quarter, there was a decline in domestic Chinese demand that caused a re-routing of local production to global markets which, in turn, caused a decrease in the prices of phosphate fertilizers.

⁵ The estimates regarding future trends in this paragraph constitute “forward-looking” information, and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, fluctuations in the world agricultural markets, particularly in the target markets for ICL’s markets, including, among other things, changes in the levels of supply and demand, extreme changes in the weather, prices of products, commodities and grains, prices of inputs, transportation and energy costs, and may be impacted by actions taken by governments, particularly the U.S. government, manufacturers and consumers. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

⁶ The estimates regarding future trends in this paragraph constitute “forward-looking” information, and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, fluctuations in the world agricultural markets, particularly in the target markets for ICL’s markets, including, among other things, changes in the levels of supply and demand, extreme changes in the weather, prices of products, commodities and grains, prices of inputs, transportation and energy costs, and may be impacted by actions taken by governments, manufacturers and consumers. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

Israel Corporation Ltd.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

Following is a brief summary of the financial results of the Corporation and the principal investees: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

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

Essential Minerals (Cont.)

Review of the business environment (Cont.)

Potash and Magnesium

- Despite the delay in signing a contract with China, ICL's potash shipments during the first quarter of 2017 increased by more than 5% compared to the corresponding quarter last year.
- Prices of potash increased moderately in spot markets such as Brazil, USA and Europe, during the first quarter of 2017 compared to the fourth quarter of 2016 and are presently showing stability. The forthcoming commissioning of the K+S's Legacy project in Canada is expected to add to the supply pressure on prices in the near-term.
- According to Customs data, China imported about 2.868 million tons of potash during the first quarter of 2017 – about 48% more than in the corresponding quarter last year. The increase resulted from the massive imports overflow under last year's contract, most likely in a view of a possible price increase in the pending 2017 contract, and continuing cross-border rail imports from Russia. Supply contracts with Chinese customers for 2017 have yet to be concluded and we estimate they will be finalized during the second quarter of 2017 year.⁷
- Potash imports into India during the first quarter of 2017 amounted to 820,000 tons, a 32% increase over the corresponding quarter last year. The sharp increase stems from the importers' projection of higher prices in the next contract and the 20% (about \$28 per ton) reduction of NBS (Nutrient Based Subsidy) during the 2017/18 fiscal year (starting April 1, 2017). The reduction of NBS may impose an additional challenge to the sales of potash to local farmers. However, as potash is already underutilized, a further decrease may have an adverse effect on yields, thus no significant demand reduction is projected.⁸

⁷ The estimates regarding the expectation of signing the contracts constitute "forward-looking" information, and they are based on estimates of ICL's management based on its familiarity with the situation in the markets and on the past experience, and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, fluctuations in the world commodity markets, including, among other things, changes in the levels of supply and demand and input prices and they may be impacted by changes in regulation and actions taken by governments, manufacturers and consumers. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

⁸ The estimates regarding future trends in this paragraph constitute "forward-looking" information, and they are based on, among other things, estimates of ICL's management based on its familiarity with the situation in the markets and on quotes of the expected prices for 2017 and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, fluctuations in the world commodity markets, including, among other things, changes in the levels of supply and demand, severe weather changes, an increase in the growing areas and input prices and they may be impacted by changes in regulation and actions taken by governments, manufacturers and consumers. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

Israel Corporation Ltd.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

Following is a brief summary of the financial results of the Corporation and the principal investees: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

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

Essential Minerals (Cont.)

Review of the business environment (Cont.)

Potash and Magnesium (Cont.)

- During the first quarter of 2017, ICL continued its potash deliveries to India as part of the supply contracts of 760 thousand tons (including optional quantities of 60 thousand tons) at a price of \$227 per ton CFR for the period running from July 2016 until June 2017.
- Brazil is showing continued strong demand for potash and other fertilizers, stimulated by low prices and good soybean demand. According to ANDA (Brazilian National Fertilizer Association), potash imports into Brazil during the first quarter of 2017 amounted to 1.668 million tons, a 21% increase over the corresponding quarter last year. The increase is attributable mainly to higher planted areas of soybeans and improvement in farmers' profitability.
- In April 2017, after receiving all the permits for execution of the Salt Harvesting with the Government of Israel, ICL's Board of Directors approved a budget of about \$280 million to further proceed with the execution of the Salt Harvesting in the Dead Sea. This budget which is part of the Salt Harvesting project, will be executed over the next 13 years, and constitutes ICL's share (80%) in the cost of performing this part. For more information – see Section 8.10.3.4 to the annual Periodic Report.
- Metal magnesium – global demand for magnesium continues to be constrained by lower economic activity in China, Brazil and Europe. In the USA, the spot market has been impacted by imports of Russian, Kazakh and Turkish pure magnesium. Additionally, consumption is being displaced as key sectors, such as primary aluminum and titanium production, are shifting to other markets, including Asia and Canada. The USA domestic producer, US Magnesium, is taking aggressive steps to offset the loss of the titanium producer, ATI (est. at 9,000 mt). US President, Mr. Donald Trump, announced a rollback of Current Corporate Average Fuel Economy (CAFE) standards, previously aimed at requiring automakers to achieve a fleet average of roughly 54.5 mpg by 2025. This follows the NHTSA's most recent postponement that would have delayed implementation of penalties until the 2019 model year. The concern is that this will slow the return of magnesium to the discussion among the automotive OEMs (original equipment manufacturers). New mileage standards and/or implementation deadlines have not been announced. Chinese price indicators continued moving lower during January falling from the peak of \$2,550 (November 1st), however recovered to \$2,300 per ton by early March. The current level represents a 24% increase above January 2016 prices. Support is in part being provided by higher ferrosilicon prices although this was partially offset by a domestic supply imbalance. Pure magnesium prices in the US market remain under pressure as a consequence of the aforementioned change in supply dynamics.

Israel Corporation Ltd.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

Following is a brief summary of the financial results of the Corporation and the principal investees: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

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

Essential Minerals (Cont.)

Review of the business environment (Cont.)

Phosphate

- After a short period of moderate price recovery in the beginning of the quarter, the phosphate market is again experiencing downward pressure. On the demand side, increased shipments to Brazil are more than offset by lackluster buying from India. Supply from the new OCP phosphate hub being established and the end of the domestic season in China are diverting more products to international trade markets.
- Despite a 7% increase compared to the fourth quarter of 2016, 2017 first quarter average DAP FOB Morocco prices were about 10% lower than the corresponding quarter last year.
- DAP inventories in India, the largest importer of phosphate materials, are still high and demand is low. The Indian government's decision in early April 2017 to reduce the NBS (Nutrient Based Subsidy) on phosphate, is expected to only have a marginal effect on DAP as it is offset by an increase of the NBS on nitrogen. DAP imports during the first quarter of 2017 amounted to just 200,000 tonnes, and although this is a 144% increase over the corresponding quarter last year, it is still considered very low. Prices offered by Chinese and Saudi producers, in the order of \$370 FOB, make it difficult for importers to buy at the prevailing MRP (minimal retail price).⁹
- Phosphoric acid (100% P₂O₅) contracts in India for the second quarter of 2017 were set at \$590/t CFR including 30 days' credit, a \$40 per ton increase from the first quarter contract price.
- The domestic demand season in China has ended and local producers are turning to the export markets. During the first quarter of 2017 China exported 1,280,000 tons of phosphate fertilizers (DAP, MAP and TSP), a 37.9% increase over the corresponding quarter last year.

⁹ The estimates regarding the impact of the decision of the Indian government on future trends constitute "forward-looking" information, and they are based on estimates of ICL's management based on its familiarity with the situation in the markets and on quotes of the expected prices for 2017 and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, fluctuations in the world commodity markets, including, among other things, changes in the levels of supply and demand, severe weather changes, an increase in the growing areas and input prices and they may be impacted by changes in regulation and actions taken by governments, manufacturers and consumers. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

Israel Corporation Ltd.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

Following is a brief summary of the financial results of the Corporation and the principal investees: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

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

Essential Minerals (Cont.)

Review of the business environment (Cont.)

Phosphate (Cont.)

- Over-supply in the domestic market in China along with lower international prices continue to negatively affect the results of the YPH joint venture in China, which recorded negative operating income of \$6 million (not including G&A expenses) in the first quarter of 2017 (most of which relates to the ICL Phosphate business line). ICL is continuing its efforts to increase efficiency and reduce costs in a challenging market environment. Continued implementation of efficiency measures and acceleration of the shift to specialty products are expected to support the JV's profitability in the short and medium terms.¹⁰
- The USA and Brazilian markets are showing good demand.
- Brazilian imports of phosphate fertilizers (MAP, DAP, TSP & SSP) during the first quarter of 2017 amounted to 887,000 tons, a 50% increase over the corresponding quarter last year. The increase is attributable mainly to higher planted areas of soybeans and improvement in farmers' profitability. MAP CFR Brazil prices in the first quarter of 2017 were 9.4% higher than in the fourth quarter of 2016, but only 4% above the first quarter of 2016. TSP CFR Brazil prices in the first quarter of 2017 were 1.5% higher than in the fourth quarter of 2016, but 10.5% lower than the first quarter of 2016.
- In the USA, strong demand from the local market and problems with delivery of rock from Peru, have forced Mosaic to purchase rock from OCP and some imported DAP barges, in order to supply its domestic commitments. Despite a 4% increase compared to the fourth quarter of 2016, 2017 first quarter average DAP US domestic prices were about 5% lower than the corresponding quarter last year.

¹⁰The estimates regarding the impact of ICL's actions of the income of the joint venture constitute "forward-looking" information, and they are based on estimates of ICL's management based on its familiarity with the situation in the markets and on quotes of the expected prices for 2017 and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, non-success on the part of ICL in implementing the necessary efficiency measures and/or strikes and/or sanctions resulting from these steps, a lack of success in assimilating the necessary changes for the transition Specialty Solutions products and/or compliance with the timetables of the above-mentioned transition, fluctuations in the world commodity markets, including, among other things, changes in the levels of supply and demand, severe weather changes, an increase in the growing areas and input prices and they may be impacted by changes in regulation and actions taken by governments, manufacturers and consumers. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

Israel Corporation Ltd.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

Following is a brief summary of the financial results of the Corporation and the principal investees: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

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

Essential Minerals (Cont.)

Review of the business environment (Cont.)

Phosphate (Cont.)

- In April 2017, the Company signed a principles agreement with the Workers Council of Rotem Amfert Israel toward the renewal of the collective bargaining agreement. The Company is expected to sign the final collective bargaining agreement in the second quarter of 2017 which will include a special early retirement plan with an expected cost of approximately \$5M-\$10M.¹¹

Specialty Fertilizers

- Due to the decision of ICL's management, commencing from January 2017, the Specialty Fertilizers product line constitutes part of ICL's Essential Minerals segment.
- ICL Specialty Fertilizers' sales and operating income increased in the first quarter of 2017 compared to the corresponding quarter in 2016 as a result of higher sales volumes throughout most regions and higher profitability, mainly in Europe and Israel. The increased profitability stems from lower-priced inventory, accumulated during prior periods, implementation of cost reduction initiatives and the slightly increasing market prices of end products.
- During the fourth quarter of 2016, global commodity fertilizers prices (mainly nitrogen) began to increase. This, combined with the recent recovery in the prices of several "cash" crops such as oil palms and sugar, is expected to support 2017 sales.¹²
- Total sales in Europe were slightly lower as the favorable impact of an early spring on sales in the turf and ornamental horticulture markets was offset by negative exchange rate effects and a decrease in sales prices.

¹¹The estimates regarding the expected signing of a collective bargaining agreement, including the projected cost, constitute "forward-looking" information, and there is no certainty that they will be realized. These estimates are based on estimates of ICL's management in light of the progress of the discussions regarding the agreement and based on past experience, and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, disputes and/or changes in the terms of the agreement, Workers' Committees and the situation in the market.

¹²The estimates regarding the support of the sales in this paragraph constitute "forward-looking" information, and they are based on estimates of ICL's management based on its familiarity with the situation in the markets and on quotes of the expected prices for 2017 to the best of the knowledge of ICL's management, and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, fluctuations in the world commodity markets, including, among other things, changes in the levels of supply and demand, severe weather changes, an increase in the growing areas and input prices and they may be impacted by changes in regulation and actions taken by governments, manufacturers and consumers. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

Israel Corporation Ltd.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

Following is a brief summary of the financial results of the Corporation and the principal investees:
(Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

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

Essential Minerals (Cont.)

Review of the business environment (Cont.)

Specialty Fertilizers (Cont.)

- In the Asia Pacific region, ICL Specialty Fertilizers' sales increased by over 50% compared to the corresponding quarter last year, primarily due to higher sales volumes of straight fertilizers. However, low market prices negatively impacted gross income. Increased interest and orders were recorded in the beginning of the second quarter.
- Emerging markets, such as Africa, Brazil, India and Turkey, are adopting more sophisticated fertilizer application methods and technologies. This trend is a result of on-going educational activities directed to local growers during the past years. Higher sales volumes to these markets were already recorded in the first quarter of 2017.

Results of operations for the period January – March 2017 (millions of dollars)

	<u>Potash and Magnesium</u>	<u>Phosphate</u>	<u>Specialty Fertilizers</u>	<u>Eliminations</u>	<u>Total</u>	
Total sales in Q1 2016	273	299	188	(37)	723	
Quantity	25	35	15	–	75	↑
Price	(5)	(35)	(5)	–	(45)	↓
Exchange rate	(10)	(7)	(6)	4	(19)	↓
Total sales in Q1 2017	<u>283</u>	<u>292</u>	<u>192</u>	<u>(33)</u>	<u>734</u>	

Quantity – the increase stems mainly from an increase in phosphoric acid and phosphate fertilizers quantities sold, together with an increase in potash sales (mainly in India and the USA) and from an increase in the quantities of specialty agriculture products sold.

Price – the decrease stems mainly from a decline in phosphate fertilizers and phosphoric acid selling prices, lower commodity fertilizers prices and a decline in potash selling prices.

Exchange rate – the decrease stems mainly from the devaluation of the euro and the Chinese yuan against the dollar.

Israel Corporation Ltd.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

Following is a brief summary of the financial results of the Corporation and the principal investees:
(Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

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

Essential Minerals (Cont.)

Analysis of operating income

	<u>\$ millions</u>	
Total operating income – 1st quarter 2016	93	
Quantity	10	
Price	(45)	
Exchange rate	(5)	
Raw materials	20	
Energy	–	
Transportation	(20)	
Other	<u>13</u>	
Total operating income – 1st quarter 2017	<u>66</u>	

Quantity – the increase derives mainly from the quantities of potash and specialty agriculture products sold.

Price – the decrease stems mainly from a decline in phosphate fertilizers and phosphoric acid selling prices, lower commodity fertilizers prices and a decline in potash selling prices.

Exchange rate – the decrease stems mainly from the upward revaluation of the Israeli shekel against the dollar.

Raw materials – the increase stems mainly from a decline in sulfur prices (used in the green phosphoric acid production) and a decline in commodity fertilizers prices (used for products of ICL Specialty Fertilizers).

Transportation – the decrease stems mainly from an increase in transportation prices and from the increase in quantities sold.

Other – the increase derives mainly from insurance income in ICL Rotem and from a capital gain due to sale of an office building in Israel.

Israel Corporation Ltd.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

Following is a brief summary of the financial results of the Corporation and the principal investees:
(Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

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

Essential Minerals (Cont.)

Additional Information – Essential Minerals

	1-3/2017	1-3/2016	2016
	Thousands of Tons		
Phosphate rock			
Production of rock	1,400	1,341	5,744
Sales*	160	362	1,032
Phosphate rock used for internal purposes	1,096	751	4,099

The quantity of fertilizers sold in the first quarter of 2017 was 143 thousand tons higher than in the corresponding quarter last year. The increase stems mainly from an increase in sales to Brazil and to China (by the YPH joint venture). In the first quarter of 2017, manufacture of phosphate fertilizers was lower by 3 thousand tons. The quantity of phosphate rock sold in the first quarter decreased significantly due to increased internal use for fertilizer production in China, as well as low global demand and an unattractive prices environment. The production of phosphate rock was higher by 59 thousand tons mainly due to increased production in ICL Rotem in Israel.

	1-3/2017	1-3/2016	2016
	Millions of Dollars		
Average potash selling price – FOB (in \$)	216	235	211
Sales to external customers	231	221	1,134
Sales to internal customers*	36	40	151
Operating income	41	51	291

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

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

Israel Corporation Ltd.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

Following is a brief summary of the financial results of the Corporation and the principal investees:
(Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

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

Essential Minerals (Cont.)

Additional Information – Essential Minerals

	1-3/2017	1-3/2016	2016
	Thousands of Tons		
Production	<u>1,057</u>	<u>1,348</u>	<u>5,279</u>
Sales to external customers	<u>942</u>	893	4,818
Sales to internal customers	<u>72</u>	<u>24</u>	<u>347</u>
Total sales (including internal sales)	<u>1,014</u>	<u>917</u>	<u>5,165</u>
Closing inventory	<u>709</u>	<u>983</u>	<u>666</u>
Fertilizers			
Production of rock	570	573	2,725
Sales*	649	506	2,645

* To external customers.

The quantity of potash sold to external customers in the first quarter of 2017, was 49 thousand tons higher than in the corresponding quarter last year, mainly due to an increase in sales to India and the USA. Production of potash in the first quarter of 2017 was 291 thousand tons lower than in the corresponding quarter last year, due to a decrease in the production of ICL UK as a result of operational breakdown in the mine tailings channel. The production was renewed at the beginning of the second quarter of 2017, and in the Company's estimation the under-production will be made up during the course of the year.¹³

Set forth below are the highlights of the changes in the cash flows in the first quarter of 2017, compared with the corresponding quarter last year:

Net cash provided by operating activities:

In the first quarter of 2017, the cash flows provided by operating activities decreased by \$27 million compared with the corresponding quarter last year. This decrease stems mainly from a decline in the trade receivables in the corresponding quarter last year due to a collection of extensive sales in the end of 2015. The said decrease was partly offset due to a decrease in the production of ICL UK as a result of operational breakdown in the mine tailings channel.

¹³ The estimates regarding the expected annual production constitute "forward-looking" information, and they are based on estimates of ICL's management and on past experience and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, operating breakdowns in the mine, changes in the estimates of the reserves, fluctuations in the global commodity markets, including, among other things, changes in the levels of the supply and demand, input prices, and work relationships.

Israel Corporation Ltd.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

Following is a brief summary of the financial results of the Corporation and the principal investees: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Set forth below are the highlights of the changes in the cash flows in the first quarter of 2017, compared with the corresponding quarter last year: (Cont.)

Net cash used in investing activities:

In the first quarter of 2017, the cash flows used in investing activities decreased compared with the corresponding quarter last year, by \$319 million. This decrease stems mainly due to payment for acquisition of 15% of the shares of YTH, in the amount of about \$250 million, in the corresponding quarter last year. In addition, there was a decline in the cash flows used for investments in property, plant and equipment, in the amount of \$81 million.

Net cash used in financing activities:

In the first quarter of 2017, there was an increase of \$258 million in the cash flows used in financing activities compared with the corresponding quarter last year. This increase stems mainly from repayment of long-term loans net of long-term loans received, in the amount of \$155 million, repayment of short-term credit from banks and others, net, in the amount of \$43 million and timing differences relating to a dividend payment in the amount of \$60 million.

Liabilities

As at March 31, 2017, the net financial liabilities of ICL amounted to \$3,262 million, a decrease of \$6 million compared with the balance at the end of 2016. The decrease of the net financial liabilities stems mostly from the operating cash flow generated during the quarter which was offset by a dividend payment of \$60 million.

The total amount of the securitization framework and credit facility deriving therefrom amounts to \$405 million. As at March 31, 2017, ICL had used \$312 million of the securitization facility.

ICL also has long-term credit facilities of \$2,026 million and €100 million, of which \$1,284 million was unused as at March 31, 2017.

On March 23, 2017, Fitch Ratings lowered the Company's international corporate credit rating to BBB- with a stable rating outlook. Fitch's above-mentioned rating also applies to the Company's debentures. According to the Company's estimate, the impact of the said rating reduction on its financial expenses, if any, will be negligible.¹⁴

Critical accounting estimates

In the three months ended March 31, 2017, there were no significant changes in the critical accounting estimates.

¹⁴ The estimates regarding the impact of reduction of the rating on ICL's financing expenses constitute "forward-looking" information, and they are based on ICL's total liabilities and its financial position as at the date of the report, and there is no certainty that they will be realized. These estimates may change if, among other things, there is a change in ICL's total liabilities and/or due to exchange proceeds in the capital markets and in the structure of ICL's debt.

Israel Corporation Ltd.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

Following is a brief summary of the financial results of the Corporation and the principal investees: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Risk factors

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

Legal proceedings

Derivative claim

Pursuant to ICL's Board resolution dated December 15, 2016, the Company has appointed a special independent external committee (the "Special Committee") to examine all of the aspects arising from the application for certification of a derivative action regarding the annual bonuses paid to office holders for the years 2014-2015 (the "Certification Application"). The Special Committee was headed by Hon. Justice (ret.) Oded Mudrick, and the other members therein were: Prof. Sharon Hannes and Prof. Haim Assayag, CPA. For purposes of its operations, the Special Committee appointed a legal advisor to accompany its work – Dr. Asaf Eckstein.

Subsequent to the date of the report, on April 18, 2017, the Special Committee submitted its report to the Board of Directors, wherein it determined, among other things, that in its opinion the adjustments to the net profit as approved by ICL's Compensation Committee for the years 2014 and 2015 were duly made and in accordance with ICL's Compensation Policy. Therefore, ICL does not have a cause of action against the directors who approved the bonus adjustments for the years 2014 and 2015, or against the officers who received the bonuses due to the said adjustments. In light of the foregoing, it would be improper for ICL to demand any restitution or reparation due to the events specified in the Certification Application filed by the Applicant. Accordingly, the Committee recommended that ICL oppose the Application filed with the Court by the Applicant.

In its meeting on April 26, 2017, the Board resolved to fully adopt the Special Committee's report and the recommendation therein to deny the Applicant's demand in the Certification Application and to instruct ICL to file an objection to the Certification Application.

Investment treaty claim against Ethiopia

Further to Note 15 of the 2016 annual financial statements, an ICL subsidiary, ICL Europe, plans to file an investment treaty claim against the Federal Democratic Republic of Ethiopia ("Ethiopia") in relation to State violations of the Agreement on Encouragement and Reciprocal Protection of Investments between Ethiopia and the Netherlands (the Ethiopia-Netherlands BIT). The violations relate to, inter alia, the State's imposition of an illegal tax assessment against, and its failure to provide infrastructure support to, Allana Potash Afar Plc, an indirect subsidiary of ICL Europe. ICL Europe plans to file the claim under the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL), and requested that the Permanent Court of Arbitration at The Hague administer the arbitration proceedings. As at the date of the report, ICL has booked a full tax provision in respect of the tax assessment. On May 10, 2017, ICL Europe filed the said claim.

For additional details regarding legal proceedings and other contingent liabilities – see Note 6 to the condensed consolidated interim financial statements as at March 31, 2017.

Israel Corporation Ltd.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

Following is a brief summary of the financial results of the Corporation and the principal investees: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Events occurring during the period of the report and thereafter

Legal proceedings

Filing of a pre-trial declaration (Great Lakes Chemicals) against ICL – for details see Note 6B to the condensed consolidated interim financial statements.

Developments regarding the mining plan in Barir Field for details see Note 6B to the condensed consolidated interim financial statements.

Intention of ICL to file an investment treaty claim against Ethiopia in connection with breach of an agreement – for details see the “Legal Proceedings” section in the ICL section of the Report of the Board of Directors above.

Derivative claim in connection with the annual bonus paid to officers of ICL for 2014 and 2015 – for details see the “Legal Proceedings” section in the ICL section of the Report of the Board of Directors above.

Salt harvesting – for details relating to approval of the Board of Directors of ICL with reference to the budget for purposes of proceeding with execution of the salt harvesting in the Dead Sea – see “Significant Events and Business Environment – Potash and Magnesium” in the ICL section of the Report of the Board of Directors above.

Financing

For details regarding reduction of ICL’s international credit rating to BBB– with a stable rating outlook – see Note 5B to the condensed consolidated interim financial statements.

Organization structure and management of ICL

Update of ICL’s organizational management structure – commencing from January 2017, ICL Specialty Fertilizers is included in the Essential Minerals segment, which focuses on the agro markets. ICL’s management believes that management of ICL Specialty Fertilizers in the Essential Minerals segment should create synergies in light of the homogeneous business infrastructure and customer base of the segment’s three product lines. In addition, the transition will expand the segment’s portfolio, such that it will include a wider range of commodity products, along with “specialty” and “semi-specialty” products.

Changes in the members of ICL’s Board of Directors and senior management – commencing from February 1, 2017, Mr. Eli Glazer, formerly the CEO of ICL Europe, is serving as the President of ICL Specialty Solutions, in place of Mr. Mark Volmer, who concluded his position on January 31, 2017. On March 14, 2017, ICL’s Board of Directors approved the appointment of Mr. Reem Aminoach as a member of ICL’s Board of Directors. Mr. Aminoach’s service will be valid up to the next General Meeting of ICL’s shareholders. On March 31, 2017, Mr. Nissim Adar, concluded his position as the President of ICL Essential Minerals. Commencing from April 1, 2017, Mr. Ofer Lifshitz, who up to recently headed ICL’s efficiency and cash-flow improvement program, replaced Mr. Adar as the President of ICL Essential Minerals.

Collective bargaining agreement in Rotem – April 2017, ICL signed a principles agreement with the Workers Council of Rotem Amfert Israel toward the renewal of the collective bargaining agreement. ICL is expected to sign the final collective bargaining agreement in the second quarter of 2017 which will include a special early retirement plan with an expected cost of approximately \$5 million – \$10 million.

Israel Corporation Ltd.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

Following is a brief summary of the financial results of the Corporation and the principal investees: (Cont.)

OIL REFINERIES LTD.

Results of operations for the period January – March 2017

In the first quarter of 2017, the trend that started in December of last year continued, which was impacted by the decision of the OPEC countries to limit production following unlimited oil production by each country in the past two years. This decision supported Brent price levels above \$50 per barrel, and at the end of the period of the report, the Brent price was fixed at \$52 per barrel.

In the period of the report, the price of Ural crude oil, which is heavy crude oil, was traded compared to Brent prices (which is light crude oil), with disparity of \$1.5 per barrel, compared with \$1.7 per barrel in the corresponding period last year. The volatility of the disparity between heavy crude and light crude was great, ranging between \$1.0 to \$2.5 per barrel, due to the increase in supply of Ural crude oil substitutes from outside the Mediterranean region.

In the period of the report, the crude oil futures market continued to be Contango, at average rate of \$0.3 per barrel per month. Concurrent with an increase in the crude oil prices, there was a decline in the Contango level.

Raw material prices, particularly naphtha, rose sharply in the period of the report compared with the corresponding period last year, concurrent with the increase in the crude oil prices. In the period of the report, the polyethylene and polypropylene prices increased compared with the corresponding period last year. This trend stems from, among other things, the behavior of the raw-material prices for production of polymers in Europe (polypropylene and ethylene), which was expressed in a decline in supply, among other things due to the shutdown of the production facilities, and an increase in demand. Particularly pronounced was the rise of the polypropylene prices versus polyethylene, this being as a result of that stated, shutdown of the production facilities in Europe. The difference between the polymer prices and the naphtha prices was at a lower level than in the corresponding period last year – particularly polyethylene.

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

Results of operations for the period January – March 2017

ORL completed the period of the report with income of about \$19 million, compared with income of about \$28 million in the corresponding period last year. Without the impact of IFRS 9 (2013), ORL finished the period of the report with income of about \$19 million, compared with income of about \$37 million in the corresponding period last year.

Set forth below is selected data for the period of the report from the consolidated statements of income and from the consolidated statements after eliminating accounting impacts in ORL's Fuels' segment (in millions of dollars).

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

Israel Corporation Ltd.

OIL REFINERIES LTD. (Cont.)

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

	1-3/2017		1-3/2016	
	Accounting	Adjusted*	Accounting	Adjusted*
	\$ millions			
Sales	<u>1,205</u>	<u>1,205</u>	<u>925</u>	<u>925</u>
EBITDA	<u>116</u>	<u>74</u>	<u>96</u>	<u>123</u>
Operating income	<u>81</u>	<u>39</u>	<u>64</u>	<u>91</u>
Financing expenses, net	<u>(47)</u>	<u>(47)</u>	<u>(36)</u>	<u>(36)</u>
Taxes on income	<u>(14)</u>	<u>(14)</u>	<u>–</u>	<u>–</u>
Net income (loss)	<u>19</u>	<u>(23)</u>	<u>28</u>	<u>55</u>

* The adjusted amounts relate to the Fuels' segment. For additional information regarding the adjustments in the Fuels' segment – "components of the adjustment and the impact thereof on the EBITDA in the Fuels' segment" below.

During the period of the report, ORL performed planned periodic maintenance in some of its downstream plants, particularly the CCR plant, and for this purpose some of the refining facilities were shut down. In addition, all of Gadiv's plants were shut down for the performance of planned periodic maintenance work. The total direct cost of the maintenance work amounted to about \$56 million. In ORL's estimation, the estimate of the lost profits caused by that stated above, which were reflected in the results for the period, is about \$69 million (about \$61 million in the fuels segment, about \$4 million in the aromatic segment and about \$4 million in the polymers segment – Carmel Olefins as a result of the derivative impacts).

Revenues of ORL segments without inter-segment cancellations

Sales in the Fuels Segment amounted to about \$1,037 million in the period of the report, compared to about \$767 million in the corresponding period last year. The average price per ton of the product mix in the Mediterranean area, which is similar to ORL's product mix, amounted to about \$474 in the period of the report, compared to about \$313 in the corresponding period last year. The increase in the average price of the product mix is primarily due to the increase in the energy prices along with the increase in the crude oil prices. Part of the decline in the sales' revenues stems from shutdown of part of ORL's facilities, particularly the CCR plant, in the period of the report for purposes of periodic maintenance work.

Domestic distillate consumption (fuel for transportation, industry and heating) decreased by about 1% compared with the corresponding period last year. There was an increase of about 4% in consumption of transportation fuels (gasoline, diesel and kerosene) compared to the corresponding period last year.

Sales in the Polymers Segment – Carmel Olefins amounted to about \$166 million in the period of the report, compared to about \$143 million in the corresponding period last year, an increase of about \$23 million. Most of this increase is due to an increase in the quantities sold, in the amount of about \$18 million and an increase in the selling prices of about \$5 million. The average price of the product mix was about \$1,287 per ton compared to about \$1,241 per ton in the corresponding period last year.

Sales of Aromatics Segment – Gadiv amounted to about \$37 million in the period of the report, compared to about \$92 million in the corresponding period last year. The decrease of about \$55 million is mainly due to a decrease in the quantities sold, in the amount of about \$56 million, due to the shutdown of all of Gadiv's facilities in the period of the report for purposes of periodic maintenance, and a decrease in other income, in the amount of about \$4 million, offset by an increase in prices of about \$5 million. The average price of the product mix was about \$680 per ton compared to about \$597 per ton in the corresponding period last year.

Israel Corporation Ltd.

OIL REFINERIES LTD. (Cont.)

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

Revenues of ORL segments without inter-segment cancellations (Cont.)

Sales of Polymers Segment – Ducor amounted to about \$55 million in the period of the report, compared with about \$46 million in the corresponding period last year. The increase of about \$9 million stems from an increase in prices of about \$7 million and an increase in quantities of about \$2 million. The average price of the product mix was about \$1,257 per ton compared with about \$1,093 per ton in the corresponding period last year.

ORL's adjusted consolidated EBITDA amounted to about \$74 million in the period of the report, compared to about \$123 million in the corresponding period last year.

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

	January–March	
	2017	2016
	\$ millions	
Increase (decrease) in the accounting income		
Expenses from timing differences (1)	(6)	15
Expenses (income) from adjustment of value of inventory to market value, net (2)	(26)	24
Expenses from the effect of changes in fair value of derivatives and realizations (3)	(10)	(12)
Total adjustments in the fuels' segment	(42)	27

- (1) Expenses (income) arising from changes in the value of unhedged inventory. In accordance ORL's policy, ORL does not hedge the inventory of up to 430 thousand tons.
- (2) Expenses (income) arising from changes in the accounting provision for adjustment of hedged inventory to market value and expenses (income) from changes in accounting provision for impairment of unhedged inventory, at the end of the period of the report.
- (3) Expenses (income) arising from changes in the revaluation of the fair value of open positions that do not relate to hedged inventory (hedging transactions on future cash flow exposure for purchase of base inventory and hedging of refining margins). The cumulative non-cash flow gain or loss in respect of these positions will be recorded to the adjusted EBITDA upon realization. In the first quarter of 2017, most of the amount stems from a non-cash flow realization of a loss on positions that do not relate to the hedged inventory.

Analysis of the refining margins of the Fuels' segment and comparison thereof to the Ural margin

In the first quarter of 2017, ORL performed significant periodic maintenance in part of its downstream facilities, particularly the CCR facility, and for this purpose it shut down some of its refining facilities. Shutdown of the facilities decreased the refining capacity to about 74% and had a significant negative impact on the refining margin. In ORL's estimation, the estimate of the lost profits caused to it as a result of that stated above is about \$61 million. Accordingly, in this quarter, the comparative analysis of the refining margin compared with the Ural margin and compared with prior periods and/or parallel periods is not representative.

Israel Corporation Ltd.

OIL REFINERIES LTD. (Cont.)

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

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

	January–March		
	2017	2017	2016
	Proforma*		
Accounting margin – dollar per ton	55.2	70.7	37.7
Adjustments in the fuels' segment – dollar per ton	(21.6)	(17.7)	11.6
Adjusted margin – dollar per ton	<u>33.6</u>	<u>53.0</u>	<u>49.3</u>
Adjusted margin – dollar per barrel	<u>4.6</u>	<u>7.3</u>	<u>6.8</u>
Ural margin – dollar per barrel	<u>5.0</u>	<u>5.0</u>	<u>3.8</u>

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

1. The estimate of the lost profits, in the amount of \$61 million was added to ORL's actual refining margin in the period of the report, which is about \$66 million (hereinafter – “the Revised Margin”).
2. The Revised Margin was divided by the representative number of barrels of crude oil and intermediate materials that ORL processes per quarter, in the amount of about 17.5 million barrels (about 70 million barrels per year).

The Ural margin increased in the period of the report compared with the corresponding period last year. The main factors causing the increase are a relatively harsh winter season in Europe and the U.S. and planned and unplanned shutdowns of refining facilities.

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

The net financing expenses in the period of the report amounted to about \$47 million, compared with about \$36 million in the corresponding period last year. Without the impact of IFRS 9 (2013), which is not applied by the Corporation, the net financing expenses in the period of the report amounted to about \$41 million, compared with about \$25 million in the corresponding period last year.

Significant events in the period of the report and thereafter

Subsequent to the date of the report, on April 20, 2017, ORL received notice of announcement of a labor dispute in ORL and its subsidiaries, in accordance with the provisions of Sections 5A and 5B of the Law for Settlement of Labor Disputes (hereinafter in this paragraph – “the Law”). Negotiations are being carried on between ORL and the representatives of the employees regarding the matters that are the subject of the notice, during which the Employees Committee of the subsidiary Carmel Olefins Ltd. notified the management of ORL that it gave notice to the New General Workers Union of its exit from the labor dispute. As at the publication date of this report, the “cooling off” period provided in by law had ended and the negotiations had not yet been completed. Up to the present time, ORL's employees have not taken any organizational actions.

Israel Corporation Ltd.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT

List of Transactions for Hedging Exposures (Table of Positions in Derivatives) of the Corporation on a Consolidated Basis as at March 31, 2017

	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								
<u>Hedging changes in variable LIBOR interest rate on dollar loans (1)</u>								
<u>Up to one year</u>								
IRS transactions	–	–	–	–	100	–	–	–
<u>More than one year</u>								
IRS transactions	–	–	–	–	250	–	(4)	–
<u>Hedging changes in exchange rate and interest rate on loans</u>								
<u>Up to one year</u>								
SWAP to dollar liability with variable interest from index-linked liability with fixed interest	–	–	–	–	–	44	–	(3)
SWAP to dollar liability with fixed interest from index-linked liability with fixed interest	–	19	–	1	–	14	–	–
SWAP to dollar liability with fixed interest from shekel liability with fixed interest	–	16	–	1	–	–	–	–
<u>More than one year</u>								
SWAP to dollar liability with variable interest from index-linked liability with fixed interest	–	–	–	–	–	133	–	7
SWAP to dollar liability with fixed interest from index-linked liability with fixed interest	–	58	–	8	–	42	–	3
SWAP to dollar liability with fixed interest from shekel liability with fixed interest	–	70	–	6	–	571	–	43

(1) Long – liability for payment in fixed interest; Short – liability for payment in variable interest.

Israel Corporation Ltd.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

Corporation's Consolidated Derivative Positions as at March 31, 2017

	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								
<u>Transactions hedging energy prices and shipping fees</u>								
Up to one year	–	–	–	–	38	–	6	–
<u>Transactions hedging share prices – more than one year</u>								
Call option on ICL share	–	–	–	–	–	129	–	(1)
Put option on ICL share	–	–	–	–	–	129	–	64
<u>Hedging changes in exchange rates on cash flows (2)</u>								
<u>Up to one year</u>								
<u>Euro/Dollar</u>								
Forward contract	–	–	–	–	162	–	–	–
Call options	–	–	–	–	61	–	–	–
Put options	–	–	–	–	61	–	1	–
<u>Shekel/Dollar</u>								
Forward contract	–	–	–	–	–	409	–	(1)
Call options	–	–	–	–	–	594	–	(2)
Put options	–	–	–	–	–	594	–	19
<u>Yen/Dollar</u>								
Forward contract	–	–	–	–	4	–	–	–
Call options	–	–	–	–	3	–	–	–
Put options	–	–	–	–	3	–	–	–
<u>Pound/Euro</u>								
Pound/euro up to one year	–	–	–	–	11	–	–	–
Call options pound/euro	–	–	–	–	–	13	–	–
Put options pound/euro	–	–	–	–	–	13	–	–
<u>Pound/Dollar</u>								
Pound/dollar up to one year	–	–	–	–	65	–	(3)	–
Call options pound/euro	–	–	–	–	–	20	–	–
Put options pound/euro	–	–	–	–	–	20	–	(1)
Call options	–	–	–	–	30	–	–	–
<u>Other</u>	–	–	–	–	19	–	–	–

- (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.)

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

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

1. Currency risk – as a result of changes in the exchange rates of various currencies in reference to the exchange rate of the dollar with respect to which the Corporation measures the exposure.
2. Interest rates risk – as a result of changes in the market interest rates.
3. Price risk – as a result of changes in market prices.
4. Index risk – as a result of changes in the CPI.

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

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

The Group made sensitivity analyses in respect of changes in the market factors in the upper and lower range of 5% and 10%, except for interest rates. In light of the low interest rates, the sensitivity analyses to changes in the interest rates were made with an increase and a decrease of 50 and 100 base points, for the existing interest curves, in order to reflect the exposure to the interest rates.

Israel Corporation Ltd.

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:

Instrument Type	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
	Rise of 100 base points	Rise of 50 base points		Fall of 50 base points	Fall of 100 base points
Debentures	16	8	(703)	(8)	(17)
SWAP transactions from index to dollar*	<u>(9)</u>	<u>(4)</u>	<u>18</u>	<u>4</u>	<u>9</u>
Total	<u><u>7</u></u>	<u><u>4</u></u>	<u><u>(685)</u></u>	<u><u>(4)</u></u>	<u><u>(8)</u></u>

Sensitivity to changes in shekel interest:

Instrument Type	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
	Rise of 100 base points	Rise of 50 base points		Fall of 50 base points	Fall of 100 base points
Long-term loans from banks	8	4	(169)	(4)	(8)
Debentures	30	15	(692)	(16)	(32)
SWAP transactions from shekel to fixed dollar interest*	(5)	(3)	4	3	5
SWAP transactions from index and shekel to fixed dollar*	<u>(41)</u>	<u>(21)</u>	<u>63</u>	<u>21</u>	<u>43</u>
Total	<u><u>(8)</u></u>	<u><u>(5)</u></u>	<u><u>(794)</u></u>	<u><u>4</u></u>	<u><u>8</u></u>

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

Israel Corporation Ltd.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to changes in fixed dollar interest rate:

Instrument Type	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
	Rise of 100 base points	Rise of 50 base points		Fall of 50 base points	Fall of 100 base points
Long-term loans from banks	17	9	(834)	(9)	(18)
Debentures	76	39	(1,441)	(40)	(82)
SWAP transactions from index and shekel to fixed dollar*	37	19	63	(19)	(39)
IRS transactions variable to fixed*	13	6	(4)	(7)	(13)
Call options on ICL share (sold)	–	–	(1)	–	–
Put options on ICL share (purchased)	<u>(2)</u>	<u>(1)</u>	<u>64</u>	<u>1</u>	<u>3</u>
Total	<u>141</u>	<u>72</u>	<u>(2,153)</u>	<u>(74)</u>	<u>(149)</u>

Sensitivity to changes in fixed euro interest rate:

Instrument Type	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
	Rise of 100 base points	Rise of 50 base points		Fall of 50 base points	Fall of 100 base points
Long-term loans from banks	<u>1</u>	=	<u>(27)</u>	=	<u>(1)</u>
Total	<u>1</u>	<u>≡</u>	<u>(27)</u>	<u>≡</u>	<u>(1)</u>

Sensitivity to changes in the CPI:

Instrument Type	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
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Debentures	(70)	(35)	(703)	35	70
SWAP transactions from index to dollar*	<u>37</u>	<u>19</u>	<u>18</u>	<u>(18)</u>	<u>(37)</u>
Total	<u>(33)</u>	<u>(16)</u>	<u>(685)</u>	<u>17</u>	<u>33</u>

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

Israel Corporation Ltd.

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:

(An increase means strengthening of the dollar against the counter currency, a decrease means weakening of the dollar against the counter currency)

Shekel/USD

Instrument Type	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%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents	(47)	(23)	467	23	47
Trade receivables	(5)	(2)	48	2	5
Credit from banks and others	3	1	(29)	(1)	(3)
Trade and other payables	23	12	(235)	(12)	(23)
Other payables and credits	20	10	(196)	(10)	(20)
Long-term bank loans	15	8	(169)	(9)	(19)
Debentures	127	66	(1,396)	(73)	(155)
SWAP transactions from shekel to dollar*	(104)	(54)	68	60	126
Currency options	(45)	(20)	17	29	64
Forward currency transactions	(37)	(19)	(1)	21	45
Call options on ICL share (sold)	–	–	(1)	–	(1)
Put options on ICL share (purchased)	<u>10</u>	<u>5</u>	<u>64</u>	<u>(5)</u>	<u>(11)</u>
Total	<u>(40)</u>	<u>(16)</u>	<u>(1,363)</u>	<u>25</u>	<u>55</u>

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

Israel Corporation Ltd.

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

Instrument Type	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%
Cash and cash equivalents	(2)	(1)	20	1	2
Trade receivables	(27)	(14)	273	14	27
Receivables and other debits	(1)	(1)	11	1	1
Credit from banks and others	9	5	(95)	(5)	(9)
Trade and other payables	18	9	(180)	(9)	(18)
Other payables and credits	8	4	(76)	(4)	(8)
Long-term loans from banks	15	7	(147)	(7)	(15)
Currency options	5	2	1	(2)	(6)
Forward transactions	<u>17</u>	<u>8</u>	<u>—</u>	<u>(8)</u>	<u>(15)</u>
Total	<u>42</u>	<u>19</u>	<u>(193)</u>	<u>(19)</u>	<u>(41)</u>

£\USD

Instrument Type	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%
Cash and cash equivalents	(1)	—	7	—	1
Trade receivables	(7)	(3)	66	3	7
Credit from banks and others	—	—	(2)	—	—
Trade and other payables	2	1	(22)	(1)	(2)
Other payables and credits	2	1	(16)	(1)	(2)
Other options	(2)	(1)	—	1	2
Forward transactions	<u>8</u>	<u>4</u>	<u>(3)</u>	<u>(3)</u>	<u>(5)</u>
Total	<u>2</u>	<u>2</u>	<u>30</u>	<u>(1)</u>	<u>1</u>

Israel Corporation Ltd.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Chinese Yuan\USD

Instrument Type	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%
Cash and cash equivalents	(2)	(1)	23	1	2
Trade receivables	(9)	(4)	88	4	9
Other receivables and debits	(1)	–	5	–	1
Assets available for sale	(24)	(12)	240	12	24
Credit from banks and others	16	8	(161)	(8)	(16)
Trade and other payables	12	6	(121)	(6)	(12)
Other payables and credits	2	1	(24)	(1)	(2)
Long-term loans from banks	9	4	(88)	(4)	(9)
Forward transactions	<u>3</u>	<u>1</u>	<u>–</u>	<u>(2)</u>	<u>(3)</u>
Total	<u>6</u>	<u>3</u>	<u>(38)</u>	<u>(4)</u>	<u>(6)</u>

Sensitivity to share fluctuations:

Instrument Type	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%
Call option on ICL share (sold)	(1)	–	(1)	–	–
Put option on ICL share (purchased)	(10)	(5)	64	5	11
Total	<u>(11)</u>	<u>(5)</u>	<u>63</u>	<u>5</u>	<u>11</u>

Sensitivity to changes in the share prices:

Instrument Type	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%
Call option on ICL share (sold)	(1)	–	(1)	–	–
Put option on ICL share (purchased)	<u>1</u>	<u>1</u>	<u>64</u>	<u>(1)</u>	<u>(1)</u>
Total	<u>≡</u>	<u>1</u>	<u>63</u>	<u>(1)</u>	<u>(1)</u>

Israel Corporation Ltd.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Instrument Type	Increase (decrease) in fair value	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions
	Rise of 15%	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%	Fall of 15%
Long-term asset available for sale	<u>36</u>	<u>24</u>	<u>12</u>	<u>240</u>	<u>(12)</u>	<u>(24)</u>	<u>(36)</u>

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 2016 on March 29, 2017 and up to the publication date of this report¹⁵:

To Section 8 of Paragraph A of the Periodic Report – Description of the company's business – Israel Chemicals Ltd. (hereinafter – "ICL")

- A. Regarding a claim filed in the United States against a subsidiary of ICL alleging breach of a supply agreement from 2003 – see the Corporation's Immediate Report dated April 3, 2017 (Ref. No. 2017-01-036315).
- B. Regarding negotiations being carried on for sale of ICL's share in IDE Technologies (50%) – see the Corporation's Immediate Report dated April 25, 2017 (Ref. No. 2017-01-042738).
- C. For details regarding an independent committee appointed by ICL in connection with a request for certification of a derivative claim with respect to annual bonuses paid to officers of ICL in the years 2014–2015 – see the Corporation's Immediate Report dated April 27, 2017 (Ref. No. 2017-01-043476).
- D. For details regarding a claim filed by a subsidiary of ICL against Ethiopia in connection with violations of the Agreement for Encouragement and Reciprocal Protection of Investments treaty – see the Corporation's Immediate Report dated May 11, 2017 (Ref. No. 2017-01-047577).
- E. For the financial statements of ICL as at March 31, 2017 and a slide presentation for investors published by ICL further thereto – see the Corporation's Immediate Reports dated May 11, 2017 (Ref. Nos. 2017-01-047574 and 2017-01-047577, respectively).
- F. For a report regarding the Report of the Board of Directors of ICL for the first quarter of 2017 – see the Corporation's Immediate Report dated May 14, 2017 (Ref. No. 2017-01-048363).

For additional details regarding ICL's business developments – see the Report of the Board of Directors of the Corporation as at March 31, 2017.

¹⁵ 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 2016 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 2016, which was published on March 29, 2017 (Ref. No. 2017-01-032967) (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.

Israel Corporation Ltd.

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

To Section 10 of Paragraph A of the Periodic Report – Human Resources

- A. For details regarding Dr. Joshua Rosenzweig, who commenced serving as an external director of the Corporation on May 8, 2017 – see the Corporation's Immediate Reports dated March 29, 2017 and May 9, 2017 (Ref. Nos. 2017-01-032589, 2017-01-046698, 2017-01-046701 and 2017-01-046776).
- B. Regarding conclusion of the service of Mr. Michael Bricker as an independent director of the Corporation commencing from May 8, 2017 – see the Corporation's Immediate Report dated May 9, 2017 (Ref. No. 2017-01-046713).
- C. The Remunerations Committee and the Board of Directors approved, at their meetings held on May 22, 2017 and May 24, 2017, respectively, in accordance with the Corporation's remuneration policy, granting of bonuses in respect of 2016, in the amount of NIS 180 thousand, to each of the two Deputy CEOs serving in the Corporation.

To Section 16 of the Periodic Report – Legal Proceedings

Regarding certification of a request for filing a derivative claim against the Corporation's controlling shareholders and officers, regarding bonuses paid to the officers by the controlling shareholders in respect of completion of the distribution transaction that is the subject of the Corporation's Transaction Report dated December 23, 2014 (Ref. No. 2014-01-229086) – see the Corporation's Immediate Report dated May 1, 2017 (Ref. No. 2017-01-044589).

For details regarding legal proceedings to which the Corporation is a party – see Note 6.A to the Corporation's condensed consolidated interim financial statements as at March 31, 2017.

To Section 24 of Part D of the Periodic Report – Additional details regarding the Corporation

For details regarding holdings of interested parties in the Corporation – see the Status Report dated April 9, 2017 (Ref. No. 2017-01-039108).

To Section 26 of Part D of the Periodic Report – Additional details regarding the Corporation

For details regarding Dr. Joshua Rosenzweig, who commenced serving as an external director of the Corporation on May 8, 2017 – see the Corporation's Immediate Reports dated March 29, 2017 and May 9, 2017 (Ref. Nos. 2017-01-032589, 2017-01-046698, 2017-01-046701 and 2017-01-046776).

To Section 29B of Part D of the Periodic Report – Additional details regarding the Corporation

On May 8, 2017, An Extraordinary General Meeting of the Corporation's shareholders was held whereat the appointment of Dr. Joshua Rosenzweig as an external director of the Corporation was approved, commencing from May 8, 2017. For additional details regarding the General Meeting and its results – see the Corporation's Immediate Reports dated March 29, 2017 and May 9, 2017 (Ref. Nos. 2017-01-032589 and 2017-01-046698).

ADDITIONAL INFORMATION INCLUDED IN THE AUDITORS' REVIEW REPORT

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

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

Israel Corporation Ltd.

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.

Aviad Kaufman
Chairman of the Board of Directors

Avisar Paz
CEO

May 24, 2017

Israel Corporation Ltd.

Condensed Consolidated Interim Financial Statements

As at March 31, 2017

(Unaudited)

In Millions of U.S. Dollars

Israel Corporation Ltd.
Condensed Consolidated Interim Financial Statements
At March 31, 2017
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, 2017 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.

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, 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 that stated in Note 6.C regarding certain legal proceedings and other contingencies against ORL and its subsidiaries, which in the estimation of the managements of the defendant companies, based on the opinion of their legal advisors, it is not possible to predict at this point the impact thereof on the financial statements, if any, and accordingly, no provision in respect thereof has been included in the financial statements.

Somekh Chaikin
Certified Public Accountants (Isr.)

May 24, 2017

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Financial Position

	At March 31		At December 31
	2017	2016	2016
	(Unaudited)		(Audited)
In Millions of U.S. Dollars			
<u>Current Assets</u>			
Cash and cash equivalents	175	266	211
Short-term investments and deposits	725	406	651
Trade receivables	968	969	966
Other receivables and debit balances, including derivative instruments	225	245	185
Income taxes receivable	51	204	66
Inventories	1,248	1,444	1,267
Assets held for sale	122	10	—
Total current assets	3,514	3,544	3,346
<u>Non-Current Assets</u>			
Investments in associated companies accounted for using the equity method of accounting	563	667	714
Financial assets available for sale	240	268	253
Loan to related company	227	161	223
Derivative instruments	99	72	59
Deferred taxes, net	144	131	150
Property, plant and equipment	4,401	4,347	4,363
Intangible assets	1,030	1,422	1,026
Other non-current assets	300	318	289
Total non-current assets	7,004	7,386	7,077
Total assets	10,518	10,930	10,423

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

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Financial Position

	At March 31		At December 31
	2017	2016	2016
	(Unaudited)		(Audited)
In Millions of U.S. Dollars			
<u>Current Liabilities</u>			
Credit from banks and others	1,070	1,096	946
Trade payables	695	717	644
Provisions	92	50	83
Other payables and credit balances, including derivative instruments	<u>737</u>	<u>641</u>	<u>760</u>
Total current liabilities	<u>2,594</u>	<u>2,504</u>	<u>2,433</u>
<u>Non-Current Liabilities</u>			
Debentures and long-term loans	4,525	4,625	4,633
Derivative instruments and other non-current liabilities	9	20	14
Provisions	174	129	185
Liabilities for deferred taxes	321	314	319
Provisions for employee benefits	<u>597</u>	<u>579</u>	<u>578</u>
Total non-current liabilities	<u>5,626</u>	<u>5,667</u>	<u>5,729</u>
Total liabilities	<u>8,220</u>	<u>8,171</u>	<u>8,162</u>
<u>Equity</u>			
Share capital and premium	323	318	322
Capital reserves	(159)	(107)	(168)
Capital reserve in respect of transactions with controlling shareholder	190	190	190
Retained earnings	<u>472</u>	<u>584</u>	<u>460</u>
Total equity attributable to the owners of the Corporation	<u>826</u>	<u>985</u>	<u>804</u>
Holdings of non-controlling interests	<u>1,472</u>	<u>1,774</u>	<u>1,457</u>
Total equity	<u>2,298</u>	<u>2,759</u>	<u>2,261</u>
Total liabilities and equity	<u>10,518</u>	<u>10,930</u>	<u>10,423</u>

Aviad Kaufman
Chairman of the Board of Directors

Avisar Paz
CEO

Sagi Kabla
CFO

Approval date of the financial statements: May 19, 2017

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

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Income

	For the		
	Three Months Ended March 31		Year Ended December 31
	2017	2016	2016
	(Unaudited)		(Audited)
In Millions of U.S. Dollars			
Sales	1,295	1,265	5,363
Cost of sales	<u>939</u>	<u>900</u>	<u>3,705</u>
Gross profit	356	365	1,658
Research and development expenses	15	17	73
Selling, transportation and marketing expenses	180	155	722
Administrative and general expenses	68	82	329
Other expenses	6	17	623
Other income	<u>(19)</u>	<u>(3)</u>	<u>(71)</u>
Operating income (loss)	106	97	(18)
Financing expenses	142	87	271
Financing income	<u>(108)</u>	<u>(28)</u>	<u>(41)</u>
Financing expenses, net	34	59	230
Share in income of associated companies accounted for using the equity method of accounting	<u>6</u>	<u>14</u>	<u>70</u>
Income (loss) before taxes on income	78	52	(178)
Taxes on income	<u>43</u>	<u>16</u>	<u>50</u>
Income (loss) for the period	<u>35</u>	<u>36</u>	<u>(228)</u>
Attributable to:			
Owners of the Corporation	7	9	(116)
Holders of non-controlling interests	<u>28</u>	<u>27</u>	<u>(112)</u>
Income (loss) for the period	<u>35</u>	<u>36</u>	<u>(228)</u>
Income per share attributable to the owners of the Corporation: (in dollars)			
Basic and diluted income (loss) per share	<u>0.90</u>	<u>1.12</u>	<u>(15.34)</u>

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		Year Ended
	March 31		December 31
	2017	2016	2016
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Income (loss) for the period	35	36	(228)
	----	----	-----
Components of other comprehensive income (loss) that will be recognized in future periods in the statement of income			
Foreign currency translation differences in respect of foreign activities	30	48	(90)
Net change in fair value of cash flow hedges transferred to the statement of income	(9)	(4)	(1)
Group's share in other comprehensive income (loss) of companies accounted for using the equity method of accounting	(2)	1	1
Effective portion of the change in fair value of cash flow hedges	9	3	–
Net change in fair value of financial assets available for sale	(15)	13	17
Income tax in respect of components of other comprehensive income (loss)	4	(3)	(2)
Total	17	58	(75)
	----	----	-----
Components of other comprehensive income (loss) that will not be recognized in future periods in the statement of income			
Actuarial losses from defined benefit plans, net	(4)	(19)	(48)
Income taxes in respect of components of other comprehensive income (loss)	1	6	10
Total	(3)	(13)	(38)
	----	----	-----
Other comprehensive income (loss) for the period, net of tax	14	45	(113)
	----	----	-----
Comprehensive income (loss) for the period	49	81	(341)
	----	----	-----
Attributable to:			
Owners of the Corporation	15	31	(165)
Holder of rights non-controlling interests	34	50	(176)
Comprehensive income (loss) for the period	49	81	(341)
	----	----	-----

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

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

	Attributable to the owners of the Corporation						Non- controlling interests	Total equity
	Share capital and premium	Translation reserve for foreign activities	Capital reserves	Capital reserve for transactions with controlling shareholder	Retained earnings	Total		
	(Unaudited)							
	\$ millions							
For the three months ended								
March 31, 2017								
Balance at January 1, 2017	322	(231)	63	190	460	804	1,457	2,261
Share-based payments in a subsidiary	–	–	–	–	–	–	2	2
Expiration of options granted to Corporation employees	1	–	(1)	–	–	–	–	–
Dividend to holders of non-controlling interests in a subsidiary	–	–	–	–	–	–	(29)	(29)
Sale of shares of subsidiary while retaining control	–	1	–	–	6	7	8	15
Income for the period	–	–	–	–	7	7	28	35
Other comprehensive income for the period, net of tax	–	16	(7)	–	(1)	8	6	14
Balance at March 31, 2017	<u>323</u>	<u>(214)</u>	<u>55</u>	<u>190</u>	<u>472</u>	<u>826</u>	<u>1,472</u>	<u>2,298</u>

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, 2016								
Balance at January 1, 2016	318	(196)	61	190	588	961	1,761	2,722
Share-based payments in a subsidiary	–	–	–	–	–	–	5	5
Share-based payments in the Corporation	–	–	*_	–	–	*_	–	*_
Dividend to holders of non-controlling interests in a subsidiary	–	–	–	–	–	–	(34)	(34)
Change in equity of investee companies accounted for using the equity method of accounting	–	–	–	–	(7)	(7)	(8)	(15)
Income for the period	–	–	–	–	9	9	27	36
Other comprehensive income for the period, net of tax	<u>–</u>	<u>24</u>	<u>4</u>	<u>–</u>	<u>(6)</u>	<u>22</u>	<u>23</u>	<u>45</u>
Balance at March 31, 2016	<u>318</u>	<u>(172)</u>	<u>65</u>	<u>190</u>	<u>584</u>	<u>985</u>	<u>1,774</u>	<u>2,759</u>

* Amount less than \$1 million.

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

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

	Attributable to the Corporation's shareholders						Non- controlling interests	Total capital
	Share capital and premium	Translation reserve for foreign activities	Capital reserves	Capital reserve for transactions with controlling shareholder	Retained earnings	Total		
				\$ millions				
Balance at January 1, 2016	318	(196)	61	190	588	961	1,761	2,722
Share-based payments in a subsidiary	—	—	—	—	—	—	15	15
Expiration of options granted to employees of a subsidiary	—	—	—	—	12	12	(12)	—
Share-based payments in the Corporation	—	—	*_	—	—	*_	—	*_
Expiration of options granted to Corporation employees	4	—	(4)	—	—	—	—	—
Dividends to holders of non-controlling interests in a subsidiary	—	—	—	—	—	—	(116)	(116)
Non-controlling interests in respect of business combinations in prior periods	—	—	—	—	—	—	(12)	(12)
Sale of shares of a subsidiary while retaining control	—	1	—	—	2	3	5	8
Change in equity of equity-accounted investee companies	—	—	—	—	(7)	(7)	(8)	(15)
Loss for the year	—	—	—	—	(116)	(116)	(112)	(228)
Other comprehensive loss for the year, net of tax	—	(36)	6	—	(19)	(49)	(64)	(113)
Balance at December 31, 2016	<u>322</u>	<u>(231)</u>	<u>63</u>	<u>190</u>	<u>460</u>	<u>804</u>	<u>1,457</u>	<u>2,261</u>

* Amount less than \$1 million.

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
	2017	2016	2016
	(Unaudited)		(Audited)
In Millions of U.S. Dollars			
Cash flows from operating activities			
Income (loss) for the period	35	36	(228)
Adjustments:			
Depreciation and amortization	96	100	409
Financing expenses, net	77	63	174
Share in income of associated companies accounted for using the equity method of accounting	(6)	(14)	(70)
Other capital losses (gains), net	(9)	1	433
Share-based payment transactions	2	5	15
Loss from re-measurement to fair value of collar options	6	7	5
Taxes on income	<u>43</u>	<u>16</u>	<u>50</u>
	244	214	788
Change in inventories	28	(57)	70
Change in trade and other receivables	(23)	117	150
Change in trade and other payables	(54)	(16)	50
Change in provisions and employee benefits	<u>5</u>	<u>15</u>	<u>96</u>
	200	273	1,154
Income taxes received (paid), net	(22)	(11)	130
Dividends received	<u>35</u>	<u>3</u>	<u>12</u>
Net cash provided by operating activities	<u>213</u>	<u>265</u>	<u>1,296</u>

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
	2017	2016	2016
	(Unaudited)		(Audited)
In Millions of U.S. Dollars			
Cash flows from investing activities			
Investments in “available for sale” securities	–	(250)	(250)
Investments in long-term deposits	(10)	–	–
Short-term deposits and loans, net	(34)	(127)	(387)
Proceeds from sale of subsidiaries	–	17	17
Acquisition of property, plant and equipment and intangible assets	(106)	(187)	(632)
Provision of long-term loans to related company	–	(40)	(90)
Interest received	1	–	5
Other	12	(4)	1
Receipts (payments) from derivative transactions not used for hedging, net	<u>32</u>	<u>8</u>	<u>(8)</u>
Net cash used in investing activities	(105)	(583)	(1,344)
	-----	-----	-----
Cash flows from financing activities			
Dividend paid to holders of non-controlling interests	(31)	–	(87)
Receipt of long-term loans and issuance of debentures	628	450	1,693
Repayment of long-term loans and debentures	(647)	(357)	(1,691)
Short-term credit from banks and others, net	(36)	7	14
Payments from derivative transactions used for hedging, net	1	(1)	(1)
Interest paid	<u>(61)</u>	<u>(54)</u>	<u>(206)</u>
Net cash provided by (used in) financing activities	(146)	45	(278)
	-----	-----	-----
Decrease in cash and cash equivalents	(38)	(273)	(326)
Cash and cash equivalents at beginning of the period	211	537	537
Effect of exchange rate fluctuations on balances of cash and cash equivalents	<u>2</u>	<u>2</u>	<u>–</u>
Cash and cash equivalents at the end of the period	<u>175</u>	<u>266</u>	<u>211</u>

* As at December 31, 2016, payments of principal and interest in respect of debentures, in the amount of about \$60 million, were postponed in accordance with the trust certificates to January 1, 2017, since the contractual repayment date was not a business day.

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

Israel Corporation Ltd.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
At March 31, 2017

Note 1 – The Reporting Entity

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

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

For additional details and more information relating to the Transaction for Change in the Structure of the Corporation’s Holdings – see Note 5 to the annual financial statements.

Commencing from the completion date of the Transaction, the Corporation is acting to advance and develop the Group’s existing businesses in and outside of Israel. The Corporation operates, by means of two main investee companies, Israel Chemicals Ltd. (hereinafter – “ICL”) and Oil Refineries Ltd. (hereinafter – “ORL”).

The Corporation is involved in management of the Group companies through directors serving on the Boards of Directors of the Corporation’s and related companies.

Note 2 – Basis of Preparation of the Financial Statements

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

The condensed consolidated interim financial statements were prepared in accordance with IAS 34, “Financial Reporting for Interim Periods” and do not include all of the information required in complete, annual financial statements. These statements should be read together with the financial statements for the year ended December 31, 2016 (hereinafter – “the Annual Financial Statements”). In addition, these financial statements were prepared in accordance with the provisions of Section D of the Securities Regulations (Periodic and Immediate Reports) 1970.

The condensed, consolidated, interim financial statements were approved for publication by the Corporation’s Board of Directors on May 24, 2017.

B. Use of estimates and judgment

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

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

Israel Corporation Ltd.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
At March 31, 2017

Note 3 – Significant Accounting Policies

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

Note 4 – Information on Activity Segments

A. General

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

- 1) **Israel Chemicals Ltd.** – ICL is a leading multi-national company engaged in the area of specialty minerals that operates a unique, integrated business model. ICL competitively extracts raw materials and utilizes sophisticated processing and product formulation technologies to add value to customers in three attractive end-markets: agriculture, food and engineered materials. ICL operates via two segments: (1) Essential Minerals, which extracts the raw materials for ICL and markets them to the potash, phosphate and magnesium markets; and (2) Specialty Solutions, which primarily produces bromine from the Dead Sea and manufactures and markets bromine and phosphorus compounds for the electronics, construction, oil & gas drillings and automotive industries; downstream products, mainly a broad range of acids, specialty phosphates and specialty minerals used as food additives and industrial intermediates; creative food ingredients and phosphate additives, which provide texture and stability solutions for the food markets.

ICL's principal assets include: one of the world's richest, longest-life and lowest-cost sources of potash and bromine (the Dead Sea), potash mines in the United Kingdom and Spain, bromine compounds processing facilities located in Israel, the Netherlands and China, a unique integrated phosphate value chain, beginning with phosphate rock mines in the Negev Desert in Israel and running up to production facilities of value-added products in Israel, Europe, the United States, Brazil and China, an extensive global logistics and distribution networks with operations in over 30 countries. ICL has a focused and highly-experienced staff that develops production processes, new applications, formulations and products for its 3 key end markets – agriculture, food and engineered materials.

ICL operates in the markets for potash, bromine, pure phosphoric acid, special phosphates, bromine-based and phosphorus-based flame retardants and chemicals for the prevention of the spreading of fires. ICL's products are used mainly in the areas of agriculture, electronics, food, fuel and gas exploration, water purification and desalination, detergents, cosmetics, medicines, vehicles and others.

ICL's overseas operations consist mainly of the production of products that are integrated with or based on the activities of the companies in Israel or in closely related fields. About 95% of the Group's products are sold to customers outside of Israel.

Israel Corporation Ltd.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
At March 31, 2017

Note 4 – Information on Activity Segments (Cont.)

A. General (Cont.)

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

ORL is applying, by means of early adoption, the provisions of IFRS 9 (2013) (hereinafter – “the Standard”). Since Israel Corporation is not applying the said Standards by means of early adoption, the Corporation makes adjustments to ORL's statements in its financial statements. The data included in this note includes the impacts of the early adoption of these Standards.

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

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

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

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

Israel Corporation Ltd.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
At March 31, 2017

Note 4 – Information on Activity Segments (Cont.)

C. Information relating to Business Segments

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

(1) Most of the adjustments stem from the ORL segment, which is an associated company.

(2) See Section B above.

	<u>ICL</u>	<u>ORL</u>	<u>Adjustments (1)</u>	<u>Total</u>
	<u>Unaudited</u>			
	<u>\$ millions</u>			
For the three months ended March 31, 2016				
Sales to external customers	<u>1,265</u>	<u>925</u>	<u>(925)</u>	<u>1,265</u>
EBITDA for the period (2)	223 -----	123 -----	(132) -----	214 -----
Depreciation and amortization	99	32	(31)	100
Financing income	(14)	(21)	7	(28)
Financing expenses	42	57	(12)	87
Share in income of equity-accounted investees	(2)	–	(12)	(14)
Extraordinary or non-recurring expenses and adjustments	<u>17</u>	<u>27</u>	<u>(27)</u>	<u>17</u>
	<u>142</u>	<u>95</u>	<u>(75)</u>	<u>162</u>
Income before taxes	81	28	(57)	52
Taxes on income (tax benefit)	<u>22</u>	<u>–</u>	<u>(6)</u>	<u>16</u>
Income for the period	<u>59</u>	<u>28</u>	<u>(51)</u>	<u>36</u>

(1) Most of the adjustments stem from the ORL segment, which is an associated company.

(2) See Section B above.

Israel Corporation Ltd.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
At March 31, 2017

Note 4 – Information on Activity Segments (Cont.)

C. Information relating to Business Segments (Cont.)

	<u>ICL</u>	<u>ORL</u>	<u>Adjustments (1)</u>	<u>Total</u>
	<u>(Audited)</u>			
	<u>\$ millions</u>			
2016				
Sales to external customers	<u>5,363</u>	<u>4,321</u>	<u>(4,321)</u>	<u>5,363</u>
EBITDA for the year (2)	<u>1,051</u>	<u>427</u>	<u>(434)</u>	<u>1,044</u>
Depreciation and amortization	401	141	(138)	404
Financing income	(25)	(2)	(14)	(41)
Financing expenses	157	134	(20)	271
Share in income of associated companies	(18)	–	(52)	(70)
Extraordinary or non-recurring expenses (income) and adjustments	<u>653</u>	<u>(44)</u>	<u>49</u>	<u>658</u>
	<u>1,168</u>	<u>229</u>	<u>(175)</u>	<u>1,222</u>
Income before taxes	(117)	198	(259)	(178)
Taxes on income	<u>55</u>	<u>40</u>	<u>(45)</u>	<u>50</u>
Income for the year	<u>(172)</u>	<u>158</u>	<u>(214)</u>	<u>(228)</u>

(1) Most of the adjustments stem from the ORL segment, which is an associated company.

(2) See Section B above.

Israel Corporation Ltd.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
At March 31, 2017

Note 5 – Additional Information

A. The Corporation

1. On January 5, 2017, the Corporation issued, by means of expansion of the debentures (Series 11), NIS 790,170,000 par value debentures (Series 11). The proceeds from the issuance, net of the issuance expenses, amounted to about NIS 804 million (about \$208 million). Standard & Poor's Maalot gave notice of provision of a rating of i1A for the above-mentioned expansion debentures (the Corporation was rated i1A/stable). For additional details – see Note 16.E.1(a) to the annual consolidated financial statements.
2. Further to that stated in Note 10.C to the annual financial statements, the Corporation continued making a “physical settlement” pursuant to the terms of the Financial Transaction, and as a result, during the period of the report, the number of shares held by the Corporation declined by a total of about 3,430 thousand shares, and as at March 31, 2017, the rate of the Corporation's holdings in ICL's issued share capital was about 48.4%, compared with 48.65% prior to the “physical settlement”. As a result of the decline in the rate of holdings, the Corporation recognized an increase in the non-controlling interests, in the amount of about \$8 million, and at the same time an increase in the retained earnings, in the amount of about \$6 million, stemming from the difference between the “physical settlement” plus closing out of the derivative that stood against it, and the increase in the non-controlling interests. Subsequent to the date of the report, on May 24, 2017, the financial closing was completed with respect to an additional quantity of about 1,143 thousand shares of ICL through a “physical settlement”, and the rate of the Corporation's holdings in ICL's issued share capital as at the aforesaid date was about 48.3%.
3. Further to that stated in Note 16.E to the annual financial statements, subsequent to the date of the report, in May 2017, the Corporation signed an agreement with a consortium of banks, as noted in Note 16.E, whereby the Corporation made early repayment of about \$50 million out of the balance of the loan and signed an extension of the repayment date of the balance of the loan, in the amount of about \$193 million, for a period of three years. In addition, deposits were released that had been made as collaterals in favor of the said loans, in the amount of about \$60 million. As at the signing date of the financial statements as at March 31, 2017, the Corporation had no deposits serving as collaterals.

B. Israel Chemicals Ltd. (hereinafter – “ICL”)

1. On March 23, 2017, Fitch Ratings lowered ICL's international corporate credit rating to BBB– with a stable rating outlook. Fitch's above-mentioned rating also applies to ICL's debentures. According to ICL's estimate, the impact of the said rating reduction on its financial expenses, if any, will be negligible.
2. Following advanced negotiations held by ICL in March 2017 regarding sale of its holdings in IDE, constituting 50% of IDE's share capital, in the financial statements as at March 31, 2017, ICL reclassified the amount of about \$122 million as "assets held for sale".

Israel Corporation Ltd.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
At March 31, 2017

Note 5 – Additional Information (Cont.)

C. Oil Refineries Ltd. (hereinafter – “ORL”)

1. As at March 31, 2017, ORL and its subsidiaries, Carmel Olefins and Gadiv, were in compliance with the financial covenants determined for them in connection with their liabilities.
2. During March 2017, ORL signed an agreement (hereinafter – “the Agreement”) with respect to availability of raw materials, mainly crude oil (hereinafter – “the Crude Oil”), with an international company. Execution of the Agreement is expected to begin during the second quarter of 2017. The Agreement will permit ORL to reduce during the period of the Agreement the quantities of the inventories of the Crude Oil it would have held in the absence of the inventory availability transaction, and as a result to manage, in the most optimal manner, the balances of its operating inventories, as well as to enjoy the financial advantages deriving from holding smaller inventory quantities, in the total scope of 1.8 million barrels, release of cash, in the amount of about \$95 million, and diversification of the financing sources.
3. Further to that stated in Note 9.C.4 to the annual financial statements, On January 5, 2017 ORL’s General Meeting approved, after approval of ORL’s Board of Directors, distribution of a dividend, in the amount of about \$85 million, and on January 22, 2017, the dividend was paid (the share of Israel Corporation in the dividend, after taxes, is about \$30 million).
4. Subsequent to the date of the report, on April 9, 2017, Standard & Poor’s Maalot raised rating of ORL and of ORL’s public debentures, from ilBBB+ to ilA–, with a stable rating outlook.
5. Subsequent to the date of the report, on April 26, 2017, ORL issued NIS 625,207,000 par value debentures (Series I), which are linked to the dollar. The proceeds from the issuance, net of the transaction costs, amounted to about \$170 million. The debentures (Series I) were rated by Standard & Poor’s Maalot at a rating of ilA–, with a stable rating outlook.

Israel Corporation Ltd.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
At March 31, 2017

Note 5 – Additional Information (Cont.)

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

ORL has made early adoption of the provisions of IFRS 9 (2013). Since Israel Corporation had not made early adoption of the Standard, as stated, Israel Corporation makes adjustments to the statements or ORL in its financial statements. Set forth below is data including impacts of early adoption of the provisions of the Standard, as stated.

Condensed data regarding associated company – ORL

Condensed data regarding the interim statement of position:

	March 31 2017	March 31 2016	December 31 2016
	(Unaudited)	(Unaudited)	(Audited)
	\$ millions		
Main location of activities	ISRAEL		
Rate of ownership rights	37.08%		
Current assets	1,238	1,053	1,309
Non-current assets	2,395	2,327	2,359
Current liabilities	(1,102)	(956)	(1,124)
Non-current liabilities	(1,569)	(1,520)	(1,507)
Total net assets (100%)	<u>962</u>	<u>904</u>	<u>1,037</u>

Condensed data regarding the interim statement of income:

	For the three months ended		For the year ended
	March 31 2017	March 31 2016	December 31 2016
	(Unaudited)	(Unaudited)	(Audited)
	\$ millions		
Revenues	<u>1,205</u>	<u>925</u>	<u>4,321</u>
Net income	19	28	158
Other comprehensive income (loss)	<u>(9)</u>	<u>2</u>	<u>3</u>
Total comprehensive income for the period	<u>10</u>	<u>30</u>	<u>161</u>

Israel Corporation Ltd.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
At March 31, 2017

Note 6 – Contingent Liabilities, Commitments, Concessions and Other

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

A. The Corporation

- (1) On October 16, 2013, V-Cars filed a monetary claim in the District Court in Tel-Aviv (essentially identical to the claim filed in the United States against the Corporation that was rejected) against the Corporation. On dates from February 28, 2017 through March 2, 2017, four consecutive days of proof hearings were held at the conclusion of which the case was set for written summations. The plaintiff and the Corporation have submitted their summations in the case. The plaintiff is required to file its response summations no later than June 4, 2017. The Corporation estimates, based on the opinion of its legal advisors, that the chances the claim will succeed are low and, in any event, it believes, based on the opinion of its legal advisors, that the chance the Corporation will be required to pay the plaintiff a significant amount is remote.
- (2) On January 16, 2014, a shareholder of ORL filed a claim and a request for its certification as a class action against ORL, the Corporation and others. On March 10, 2016, the Court rejected the request for certification and ruled to credit the requesting party for the request expenses, in the total amount of NIS 250,000. On April 18, 2016, the requesting party filed an appeal of the decision in the Supreme Court. On June 19, 2016, ORL, the Corporation and others filed in the Supreme Court a counter-appeal to the Court decision. On October 31, 2016, the requesting party submitted his summations as the appellant in the appeal. On January 25, 2017, the respondents submitted their summations as respondents in the appeal and as appellants in the counter-appeal, and on February 27, 2017, the appellants filed their response to the appeal and their summations as respondents in the counter-appeal. A hearing for completion of the oral contentions in the appeal and the counter-appeal was set for May 24, 2017 and on May 17, 2017, it was postponed to an unannounced date.

In the estimation of the Corporation, based on the opinion of its legal advisors, taking into account the early stage of the appeal, the chances that the appeal filed by the requesting party will be accepted are lower than the chances that it will be rejected.

- (3) On August 5, 2014, a request was filed in the District Court in Tel-Aviv-Jaffa (the Economics Division) for certification of a claim as a derivative claim (hereinafter – “the Request for Certification”), by a Corporation shareholder that allegedly holds 19 of the Corporation’s shares (hereinafter – “the Requesting Party”) against the Corporation, ZIM, Messrs. Gideon Langholz, Oded Degany, Zehavit Cohen and Michael Bricker (who serve as Corporation directors) and against Millennium Investments Elad Ltd. (hereinafter – “Millennium”) and Mr. Idan Ofer (hereinafter – “the Respondents”). A copy of the statement of claim is attached to the Request for Certification. On June 26, 2016, a Court decision was rendered whereby the Request for Certification was rejected (hereinafter – “the Court Decision”). On September 25, 2016, Requesting Party filed an appeal of the court decision to the Supreme Court. A hearing was scheduled for completion of the oral contentions for December 18, 2017. The summations of the appellant are to be filed no later than June 30, 2017, the summations of the respondents are to be filed no later than October 19, 2017 and the response summations no later than November 19, 2017.

Israel Corporation Ltd.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
At March 31, 2017

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

A. The Corporation (Cont.)

(3) (Cont.)

At this early and preliminary stage of the appeal, it is difficult to estimate the chances of these proceedings and their risks. In any event, as usual, a derivative claim (even if it is certified as a derivative claim), as well as appeal of the rejection of the request for certification of the claim as a derivative claim, does not pose a significant threat of a liability for a significant monetary amount on the part of the Corporation (this is the rationale forming the basis for this type of claim), and it appears that this is also true in this case.

- (4) On December 31, 2014, a request for certification of a claim as a derivative claim was filed in the District Court of Tel-Aviv–Jaffa (Economic Division) (“the Request for Certification”), by two shareholders who allegedly hold together 42 of the Corporation’s shares (hereinafter – “the Plaintiffs”), against the Corporation, Messrs. Gideon Langholz, Oded Degany, Zehavit Cohen and Michael Bricker (who serve as Corporation directors) (hereinafter – “the Directors”) and against Trigger Foresight (a limited partner) (hereinafter – “Trigger Foresight”). A copy of the statement of claim is attached to the Request for Certification. On December 10, 2015, a preliminary hearing was on the request for the approval and thereafter the case was set for hearings of the proofs on June 1, 2016 and on June 9, 2016. The Plaintiffs filed a request with the Court for discovery of documents. On May 15, 2017, the Court’s decision was received wherein it determined that there is no place for hearing the request for discovery of documents prior to hearing the Request for Certification. On June 13, 2016, the Plaintiffs filed a request for leave to appeal in connection with the Court’s decision to reject the request for discovery of documents (hereinafter – “the Request for Leave to Appeal”). On August 9, 2016, a notice and request was filed on behalf of the Plaintiffs and Trigger Foresight whereby they have reached agreements with each other. On October 26, 2016, a decision was rendered by the Supreme Court on the Request for Leave to Appeal whereby, in brief, the Request for Leave to Appeal was accepted in part and it was ruled that protocols of the Special Committee for the period determined are to be submitted to the District Court in order to determine whether to allow reading of the documents while a balancing is to be made between the relevance of these documents to that contended in the Request for Leave to Appeal and the claims of confidentiality raised by the Corporation. On November 8, 2016, a notification was filed on behalf of Israel Corporation with respect to delivery of documents (confidential documents) for the Court’s perusal, to which were attached (in a sealed envelope for the Court’s perusal only) the required protocols, and the parts the Corporation believes are confidential – were marked as such. On January 17, 2017, the Court’s decision was rendered, which accepted the Corporation’s position regarding application of the attorney/client privilege to the documents delivered to the Court, as noted above, and the Court determined that under the circumstances of the matter there is no justification to negate the privilege.

Israel Corporation Ltd.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
At March 31, 2017

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

A. The Corporation (Cont.)

(4) (Cont.)

Accordingly, the Court instructed the Corporation to transfer the said documents for perusal by the requesting parties, while “blacking out” the confidential sections protected by the privilege. June 28, 2017 and July 3, 2017 were set as the dates for hearing the proofs in the case. On March 19, 2017, the Plaintiffs filed a request to summon witnesses, wherein they requested the Court to summon Prof. Asher Blass for questioning, who prepared the opinion regarding the debt arrangement that is the subject of the request for certification of Antropi Investigation Services Ltd., and Mr. Nir Gilad. The response date to the request to summon witnesses was set as April 6, 2017. Subsequent to the date of the report, on May 9, 2017, the Court accepted the request to summon witnesses and instructed that Prof. Asher Blass and Mr. Nir Gilad be summoned to appear.

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

- (5) On January 15, 2015, a request was filed on behalf of Mr. Mordochai Gavrielli (hereinafter – “the Plaintiff”), as part of a proceeding for certification of a claim as a class action, in the amount of NIS 32.3 million (hereinafter – “the Request”), against the Corporation and, based on that alleged in the Request, against the members of the Corporation’s Board of Directors, the Corporation’s CEO on the relevant dates, the Corporation’s CFO on the relevant dates (hereinafter – “the Officers”) and the Corporation’s controlling shareholder (hereinafter jointly and severally – “the Respondents”). The Plaintiff held 5 of the Corporation’s shares between the dates October 14, 2014 through December 3, 2014. As part of an Immediate Report of the Corporation dated December 31, 2014, a notification was provided whereby there was a clerical error in the Report of the Board of Directors as at September 30, 2014, which was published on November 25, 2014 (hereinafter – “the Board of Directors”). Pursuant to that alleged in the Request, the clerical error is a “significant error in description of the financial position of the subsidiary”, and this error caused the Plaintiff and additional shareholders, who bought and sold their shares during the period between November 25, 2014 (prior to the start of trading) through December 31, 2014 (after the close of trading) (hereinafter – “the Alleged Misleading Period”), to sustain significant harm. On January 5, 2016, a preliminary hearing on the claim was held. On May 17, 2016, a court hearing was held wherein the Plaintiff (regarding his affidavit), the expert on its behalf (regarding his opinion) and a declarant on behalf of the Corporation (on his affidavit) were questioned. On July 18, 2016, the requesting party filed summations on his behalf and on November 14, 2016, the respondents filed summations on their behalf, and on November 22, 2016, the requesting party submitted response summations. In the estimation of the Corporation’s management, it is not possible to assess the probability that the District Court will reject the Request or will approve it (and will certify the claim as a class action).

Israel Corporation Ltd.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
At March 31, 2017

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

A. The Corporation (Cont.)

- (6) On July 9, 2016, a request for certification of a claim as a derivative claim (hereinafter – “the Request for Certification”) was filed in the District Court in Tel-Aviv-Jaffa (Economics Division) by Ms. Yehudit Langa, who alleges to hold shares of the Corporation (hereinafter – “the Claimant”), against the Corporation, against Mr. Idan Ofer and Millennium Investments Elad Ltd. (hereinafter, both together – “the Controlling Shareholders”), and against the Corporation’s form CEO and 3 additional officers (hereinafter – “the Officers”). A copy of the statement of claim was attached to the Request for Certification.

Subsequent to the date of the report, on April 30, 2017, the Court accepted the Request for Certification and approved maintaining the claim against the Officers and against the Controlling Shareholders. The Court determined, among other things, that provision of direct remuneration from the Controlling Shareholder to the Officers “breaches the balance” the legislator wished to achieve by means of the provisions enacted as part of Amendment No. 20 to the Companies Law, 1999 (“Amendment No. 20” and “the Companies Law”), and causes a situation wherein the Officers to which remuneration was promised, as stated, are in a position of a conflict of interests. Accordingly, the Court determined that the Corporation was required to bring the bonuses for approval of its competent authorities under the procedure provided in the Companies Law (“as worded in Amendment No. 20”) for approval of the Corporation’s remuneration policy. Therefore, the Court approved maintaining the claim against the Officers, and against the Controlling Shareholders, which respect to whom it was determined that they have a duty to return the bonuses to the Corporation’s accounts “jointly and severally” with the Officers. The Court ruled that the Officers and the Controlling Shareholders are to bear the Claimant’s expenses in the Request for Certification stage, in the amount of NIS 60,000. In addition, dates were set for commencement of the proceedings on the claim in the name of the Corporation by the Claimant, as follows: the statement of claim – is to be filed no later than June 1, 2017; and the statement of defense – is to be filed no later than September 1, 2017. A pre-trial hearing was scheduled for July 16, 2017.

On May 23, 2017, the representative of the Officers notified the Court that negotiations are being carried on regarding the possibility of settling the dispute that is the subject of the proceeding by means of consent. In light of this, the Court was requested to stay all the dates set in the case. In light of that stated above, it is clear that the above-mentioned decision, which accepts the Request for Certification, would appear to increase the claim’s chances of ultimately being accepted. Clearly, the respondents have the right to request a re-hearing with respect to the said decision. In any event, as usual, a derivative claim (even if it is approved as a derivative claim), does not create actual monetary exposure for the Corporation itself (indeed this is the rationale forming the basis for a claim of this type), and this is true in the present case as well.

Israel Corporation Ltd.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
At March 31, 2017

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

A. The Corporation (Cont.)

(7) In September 2013, the District Court in Lod issued a fixed liquidation order against Better Place, which is incorporated in Delaware in the United States, in which the Corporation holds about 30% of its shares. This liquidation order was recognized during October 2013 by the competent court in Delaware. As far as we know, a liquidation order has also been issued against subsidiaries of Better Place. In March 2014, the Corporation submitted to the Liquidator of Better Place a debt claim in the amount of about \$72 million in respect of its investment in subordinated convertible notes issued by Better Place in November 2012 and February 2013. On September 2, 2014, the decision of the liquidators of Better Place was received whereby the debt claim submitted by the Corporation is rejected. No appeal of the decision on the debt was filed. Former officers of the Corporation have been summoned for investigation by the liquidator of Better Place. Further that stated above, on May 23, 2016, a claim was filed in the Central District Court of Lod by the liquidator of Better Place, in the amount of NIS 200 million, against, among others, a number of position holders in Better Place, including 3 former officers of the Corporation, in connection with their service in Better Place and actions or omissions of the defendants at the time of the liquidation. To the best of its knowledge, the Corporation is not one of the defendants. The date for filing the statements of defense is September 10, 2017 and a pre-trial hearing has been scheduled for October 22, 2017.

B. ICL

- (1) On March 31, 2017, following a claim filed by Great Lakes Chemicals, a subsidiary of Chemtura Corporation (hereinafter – “Great Lakes”), as part of a "confidential" legal proceeding against Dead Sea Bromine Company Ltd. (hereinafter – "DSB"), alleging breach of an agreement from 2003 covering supply and sale of bromine and downstream bromine products, the parties submitted a joint pre-trial statement to the U.S. District Court for the Southern District of New York. As part of the above-mentioned statement, Great Lakes is claiming alleged damages, in an amount of about \$28 million, and is requesting issuance of a declaratory order enforcing the agreement from 2003. On the other hand, as part of the above pre-trial statement, DSB rejects the damages claimed, including any related responsibility or obligation. In light of the early stage of the proceeding it is difficult to predict the ultimate outcome of the claim. Nonetheless, in ICL's estimation, the chances that Great Lakes' alleged claims will be rejected exceed the chances that they will be accepted.
- (2) Further to Note 20 to the Annual Financial Statements, in April 2017, the National Council for Planning and Building approved amendments to the National Outline Plan (NOP) 14B, which includes Barir field and transferred the plan for government approval. In addition, in March 2017, the Supreme Court sitting as the High Court of Justice rejected the petition of residents of Arad against the policy document of the National Council for Planning and Building regarding the mining plan in Barir field.

Israel Corporation Ltd.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
At March 31, 2017

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

B. ICL (Cont.)

- (1) Further to that stated in Note 15.B.1 to the annual financial statements, subsequent to the date of the report, on May 10, 2017, a Netherlands subsidiary of ICL filed a claim under the Agreement for Encouragement and Reciprocal Protection of Investments (BIT) treaty against the Federal Republic of Ethiopia, in connection with violations on the part of the country of Agreement for Encouragement and Reciprocal Protection of Investments signed between Ethiopia and the Netherlands. The violations relate to, among other things, the country's imposition of an illegal tax assessment against, and its failure to provide infrastructure support to, Allana (a company in the ICL Group). As at the date of the report, ICL has recorded full tax provisions in respect of the tax assessment.

C. ORL

- (1) In the period of the report, Carmel Olefins received a warning in respect of claims of non-conformance regarding the values measured in one of the factory's stacks, compared with the values stated in the emission permit. Carmel Olefins submitted a detailed response to the warning. At this preliminary stage, ORL is not able to estimate the exposure for the warning.
- (2) As detailed in Note 20.B(3)(a)-(j) to the annual financial statements, legal, administrative and other proceedings are being carried on against the ORL Group regarding environmental protection (including a claim filed, in the amount of NIS 753 million along with a request for its certification as a class action, in respect of a fire that occurred in the storage tank of the intermediate materials that took place on ORL's premises in December 2016). In the estimation of ORL's management, based on an opinion of its legal advisors and the legal advisors of ORL's subsidiaries, at this stage, it is not possible to estimate the impacts, if any, on the financial statements as at March 31, 2017 and, accordingly, no provisions in respect thereof have been included in the financial statements.

Israel Corporation Ltd.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
At March 31, 2017

Note 7 – Financial Instruments

Fair value

(1) Fair value compared with book value

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

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

	As at					
	March 31, 2017		March 31, 2016		March 31, 2016	
	Book value	Market value	Book value	Market value	Book value	Market value
	Unaudited		Unaudited		Audited	
Millions of dollars						
Non-convertible debentures	<u>2,772</u>	<u>2,837</u>	<u>2,388</u>	<u>2,479</u>	<u>2,704</u>	<u>2,745</u>
Loans from banks and others	<u>1,127</u>	<u>1,131</u>	<u>1,336</u>	<u>1,378</u>	<u>1,135</u>	<u>1,153</u>

(2) Hierarchy of fair value

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

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

Israel Corporation Ltd.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
At March 31, 2017

Note 7 – Financial Instruments (Cont.)

(2) Hierarchy of fair value (Cont.)

	March 31 2017	March 31 2016	December 31 2016
	(Unaudited)	(Unaudited)	(Audited)
	Book Value		
	\$ millions		
Assets			
Marketable securities held for trade (1)	–	26	10
Assets available for sale* (3)	240	268	253
Derivatives used for accounting hedge (2)	17	9	17
Derivatives used for economic hedge (2)	67	20	8
Collar options (3)	<u>63</u>	<u>75</u>	<u>74</u>
	<u>387</u>	<u>398</u>	<u>362</u>
Liabilities			
Derivatives used for accounting hedge (2)	1	–	1
Derivatives used for economic hedge (2)	<u>8</u>	<u>39</u>	<u>21</u>
	<u>9</u>	<u>39</u>	<u>22</u>

(1) Level 1.

(2) Level 2.

(3) Level 3.

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

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

The following table presents reconciliation between the opening balance and the closing balance with respect to Call (Put) options on ICL shares measured at fair value at Level 3 in the fair value hierarchy:

	For the three months ended		For the year ended
	March 31 2017	March 31 2016	December 31 2016
	(Unaudited)	(Unaudited)	(Audited)
	\$ millions		
Opening balance	74	81	81
Closing of financial transaction*	(6)	–	(6)
Settlement in respect of dividend adjustment component	1	1	4
Total losses recognized in the statement of income:			
Realized	(1)	(1)	(4)
Unrealized	<u>(5)</u>	<u>(6)</u>	<u>(1)</u>
Closing balance	<u>63</u>	<u>75</u>	<u>74</u>

* See Note 2.A.5

Israel Corporation Ltd.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
At March 31, 2017

Note 7 – Financial Instruments (Cont.)

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

Level 2

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

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

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

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

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

Level 3

The fair value of derivate assets at Level 3 is measured every quarter by an external appraiser using the “Black and Scholes” model, which is used for measuring options. Measurement of the value is examined by professional parties in the Corporation. Despite the fact that the Corporation believes that the fair values determined for purposes of measurement and/or disclosure are appropriate, use of different assumptions or measurement methods could change the fair value. Regarding measurement of fair value, a possible reasonable change of one or more of the assumptions could increase (decrease) the income (loss) and the equity, as shown below:

	Change in income (loss) and equity			
	<u>\$ millions</u>	<u>\$ millions</u>	<u>\$ millions</u>	<u>\$ millions</u>
	<u>Rise of 100 base points</u>	<u>Rise of 50 base points</u>	<u>Fall of 50 base points</u>	<u>Fall of 100 base points</u>
Change in interest rate as at March 31, 2017*	(3)	(1)	1	3
Change in interest rate as at March 31, 2016*	(4)	(2)	2	4
Change in interest rate as at December 31, 2016*	(2)	(1)	1	2

* Based on a risk free interest curve.

Israel Corporation Ltd.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
At March 31, 2017

Note 7 – Financial Instruments (Cont.)

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

Level 3 (Cont.)

	Change in income (loss) and equity			
	\$ millions	\$ millions	\$ millions	\$ millions
	Increase of 10%	Increase of 5%	Decrease of 5%	Decrease of 10%
Change in the fluctuations of the price of an ICL share as at March 31, 2017**	2	1	(1)	(2)
Change in the fluctuations of the price of an ICL share as at March 31, 2016**	3	2	(2)	(4)
Change in the fluctuations of the price of an ICL share as at December 31, 2016**	2	1	(1)	(2)

** As at March 31, 2017 and 2016 and as at December 31, 2016, the standard deviation was about 29.8%, 32.06% and 30.6%, respectively.

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, 2017

(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, 2017
Unaudited

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Somekh Chaikin

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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, 2017 and for the three-month period then ended. 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.

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 that stated in Note 6.C to the Corporation’s consolidated financial statements regarding certain legal proceedings and other contingencies against ORL and its subsidiaries, which in the estimation of the managements of the defendant companies, based on the opinion of their legal advisors, it is not possible to predict at this point the impact thereof on the financial statements, if any, and accordingly no provision in respect thereof has been included in the financial statements.

Somekh Chaikin
Certified Public Accountants (Isr.)

May 24, 2017

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at March 31, 2017
Condensed Interim Statements of Financial Position Information

	At March 31		At December 31
	2017	2016	2016
	(Unaudited)		(Audited)
In Millions of U.S. Dollars			
<u>Current Assets</u>			
Cash and cash equivalents	70	132	97
Short-term deposits	687	302	622
Dividend receivable	15	17	15
Other receivables and debit balances	1	–	1
Derivative instruments	28	14	28
Income tax receivable	–	136	–
Total current assets	801	601	763
<u>Non-Current Assets</u>			
Investments in investee companies	1,639	1,879	1,670
Loans to wholly-owned subsidiaries	124	116	117
Loan to related company	227	161	223
Derivative instruments	63	72	56
Total non-current assets	2,053	2,228	2,066
Total assets	2,854	2,829	2,829

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

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at March 31, 2017
Condensed Interim Statements of Financial Position Information

	At March 31		At December 31
	2017	2016	2016
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
<u>Current Liabilities</u>			
Current maturities in respect of non-current liabilities	480	413	358
Other payables and credit balances	58	10	64
Derivative instruments	<u>3</u>	<u>7</u>	<u>10</u>
Total current liabilities	<u>541</u>	<u>430</u>	<u>432</u>
<u>Non-Current Liabilities</u>			
Debentures and long-term loans	1,485	1,410	1,587
Derivative instruments	–	2	4
Long-term balances	<u>2</u>	<u>2</u>	<u>2</u>
Total non-current liabilities	<u>1,487</u>	<u>1,414</u>	<u>1,593</u>
Total liabilities	<u>2,028</u>	<u>1,844</u>	<u>2,025</u>
<u>Equity</u>			
Share capital and premium	323	318	322
Capital reserves	(159)	(107)	(168)
Capital reserve for transactions with controlling shareholder	190	190	190
Retained earnings	<u>472</u>	<u>584</u>	<u>460</u>
Total equity attributable to the owners of the Corporation	<u>826</u>	<u>985</u>	<u>804</u>
Total liabilities and equity	<u>2,854</u>	<u>2,829</u>	<u>2,829</u>

Aviad Kaufman
Chairman of the Board of Directors

Avisar Paz
CEO

Sagi Kabla
CFO

Approval date of the financial statements: May 24, 2017

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

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at March 31, 2017
Condensed Interim Statements of Income Information

	For the		
	Three Months Ended		Year Ended
	March 31		December 31
	2017	2016	2016
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Administrative and general expenses	(2)	(2)	(8)
Other expenses	<u>(6)</u>	<u>(7)</u>	<u>(4)</u>
Operating loss	(8)	(9)	(12)
	---	---	-----
Financing expenses	(44)	(40)	(103)
Financing income	<u>31</u>	<u>14</u>	<u>21</u>
Financing expenses, net	(13)	(26)	(82)
	---	---	-----
Share in income of investee companies, net	<u>32</u>	39	(24)
	---	---	-----
Income (loss) before taxes on income	11	4	(118)
Taxes on income (tax benefit)	<u>4</u>	<u>(5)</u>	<u>(2)</u>
Income (loss) for the period attributable to the owners of the Corporation	<u>7</u>	<u>9</u>	(116)

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

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at March 31, 2017
Condensed Interim Statements of Comprehensive Income Information

	For the		
	Three Months Ended		Year Ended
	March 31		December 31
	2017	2016	2016
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Income (loss) for the period attributable to the owners of the Corporation	7 ---	9 ---	(116) -----
Components of other comprehensive income (loss) that will be recognized in future periods in the statement of income			
Effective portion of the change in fair value of cash flow hedges	10	3	1
Net change in fair value of cash flow hedges transferred to the statement of income	(9)	(4)	(1)
Taxes on income in respect of other components of other comprehensive income	-	-	3
Other comprehensive income (loss) in respect of investee companies, net	<u>10</u>	<u>28</u>	<u>(35)</u>
Total	11 ---	27 ---	(32) -----
Components of other comprehensive income (loss) that will not be recognized in future periods in the statement of income			
Taxes on income in respect of other components of other comprehensive income	-	-	2
Other comprehensive loss in respect of investee companies, net	<u>(3)</u>	<u>(5)</u>	<u>(19)</u>
Other comprehensive loss for the period, net of tax	(3) ---	(5) ---	(17) -----
Total comprehensive income (loss) for the period attributable to the owners of the Corporation	<u>15</u>	<u>31</u>	<u>(165)</u>

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

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at March 31, 2017
Condensed Interim Statements of Cash Flows Information

	For the		
	Three Months Ended		Year Ended
	March 31		December 31
	2017	2016	2016
	(Unaudited)	(Audited)	
	In Millions of U.S. Dollars		
Cash flows from operating activities			
Income (loss) for the period attributable to the owners of the Corporation	7	9	(116)
Adjustments:			
Financing expenses, net	13	26	82
Share in losses (income) of investee companies, net	(32)	(39)	24
Loss on re-measurement to fair value of collar options	6	7	5
Taxes on income (tax benefit)	<u>4</u>	<u>(5)</u>	<u>(2)</u>
	(2)	(2)	(7)
Change in receivables	<u>1</u>	<u>1</u>	<u>(1)</u>
	(1)	(1)	(8)
Income tax received (paid), net	(2)	25	208
Dividends received	<u>59</u>	<u>2</u>	<u>77</u>
Net cash provided by operating activities	56	26	277
	-----	-----	-----
Cash flows from investing activities			
Short-term deposits and loans, net	(34)	(168)	(494)
Provision of long-term loan to related company	-	(40)	(90)
Collection of long-term loans from investee companies	-	78	78
Interest received	1	-	3
Proceeds (payments) in respect of settlement of derivatives used for hedging purposes, net	<u>(4)</u>	<u>5</u>	<u>(4)</u>
Net cash used in investing activities	(37)	(125)	(507)
	-----	-----	-----
Cash flows from financing activities			
Receipt of long-term loans and issuance of debentures	208	-	365
Repayment of long-term loans and debentures	(222)	(107)	(326)
Interest paid	(34)	(31)	(82)
Receipt from (payment for) settlement of derivatives used for hedging, net	<u>1</u>	<u>(1)</u>	<u>(1)</u>
Net cash used in financing activities	(47)	(139)	(44)
	-----	-----	-----
Net decrease in cash and cash equivalents	(28)	(238)	(274)
Cash and cash equivalents at the beginning of the period	97	370	370
Effect of exchange rate fluctuations on balances of cash and cash equivalents	<u>1</u>	<u>-</u>	<u>1</u>
Cash and cash equivalents at the end of the period	<u>70</u>	<u>132</u>	<u>97</u>

* On December 31, 2016, payments of principal and interest in respect of the debentures, in the amount of about \$60 million, were postponed in accordance with the trust indentures to January 1, 2017, since the contractual payment date was not a business day.

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

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at March 31, 2017
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, 2016 and for the year then ended and together with the condensed consolidated financial statements as at March 31, 2017.

In this separate-company interim financial information:

- A. The Corporation – Israel Corporation Ltd.
- B. Subsidiaries – Companies the financial statements of which are fully consolidated, directly or indirectly, with those of the Corporation.
- C. Investee companies – Companies where the Corporation's investment therein is included, directly or indirectly, in the financial statements using the equity basis of accounting.

2. Other Information

1. On November 22, 2016, the Board of Directors of ICL decided to distribute a dividend, in the amount of about \$60 million, about \$0.047 per share (the share of the Corporation's and the headquarters companies – about \$29 million). The dividend was distributed on January 4, 2017, where the effective date for eligibility to the dividend was December 20, 2016.
2. On February 14, 2017, the Board of Directors of ICL decided to distribute a dividend, in the amount of \$57 million, about \$0.044 per share. The dividend was distributed on April 4, 2017. The share of the Corporation's and the headquarters companies – about \$25 million.
3. Subsequent to the date of the report, on May 9, 2017, the Board of Directors of ICL decided to distribute a dividend, in the amount of \$34 million, about \$0.026 per share. The dividend will be distributed on June 20, 2017. The share of the Corporation's and the headquarters companies – about \$16 million.
4. As at March 31, 2017, the balance of the Corporation's cash collaterals is about \$60 million. Subsequent to the date of the report, the balance of the cash collaterals was released. For details – see Note 5.A.3 to the condensed consolidated interim financial statements.
5. Further to that stated in Note 4.C.2 to the annual financial statements – separate-company information as at December 31, 2016, subsequent to the date of the report, in April 2017, the Corporation provided a short-term loan to ICL, in the amount of \$110 million. The loan is for a period of up to six months and bears weighted interest at the annual rate of 1.62%.

Israel Corporation Ltd.

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

As at March 31, 2017

(Unaudited)

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

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

For this purpose, the members of management are:

Avisar Paz, CEO;

Sagi Kabla, CFO

Maya Alchek-Kaplan, General Counsel and company secretary;

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

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

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

In the Annual Report regarding the effectiveness of the internal control over the financial reporting and the disclosure, which was attached to the Periodic Report for the period ended December 31, 2016 (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, 2016, is effective.

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

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

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

Management Representation

Declaration of the CEO

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

I, Avisar Paz, declare that:

- (1) I have examined the interim financial statements of Israel Corporation Ltd. (hereinafter – “the Corporation”) as at March 31, 2017 (hereinafter – “the Statements”).
- (2) As far as I am aware, the Statements do not include a misrepresentation of a material fact and they do not lack a material fact that is required so that the representations included therein, in light of the circumstances in which such representations were included, will not be misleading with reference to the period covered by the Statements.
- (3) As far as I am aware, the financial statements and other financial information included in the Statements properly reflect, in all material respects, the Corporation’s financial position, results of operations and cash flows as at the dates and for the periods to which the Statements relate.
- (4) I have disclosed to the Corporation’s auditing CPAs, Board of Directors and Audit and Financial Statements Committees, based on my most up-to-date estimation with respect to the internal control over the Corporation’s financial reporting and disclosure:
 - (a) All the significant deficiencies and weaknesses in determination or operation of the internal control over the financial reporting and disclosure that might reasonably have an unfavorable impact on the Corporation’s ability to gather, process, summarize or report financial information in such a manner that could cause doubt with respect to the reliability of the financial report and preparation of the financial statements in accordance with the provisions of law; and –
 - (b) Every fraud, whether or not significant, wherein the CEO is involved or a party under his direct supervision or other employees are involved that have a significant function in the internal control over the financial reporting and disclosure;
- (5) I, alone or together with others in the Corporation:
 - (a) Have determined controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, which are designed to ensure that significant information relating to the Corporation, including its subsidiaries as defined in the Securities Regulations (Preparation of Annual Financial Statements), 2010, to the extent it is relevant to the financial statements and the other information presented in the Statements is brought to my attention by others in the Corporation and the subsidiaries, particularly during the period of preparation of the Statements; and –
 - (b) Have determined controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, which are designed to reasonably ensure the reliability of the financial report and preparation of the financial statements in accordance with the provisions of law, including in accordance with generally accepted accounting principles (GAAP);
 - (c) No event or matter that occurred during the period between the date of the latest Periodic Report and the date of this report was brought to my attention that is sufficient to change the conclusions of the Board of Directors and Management regarding the effectiveness of the internal control over the Corporation’s financial reporting and disclosure.

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

May 24, 2017

Avisar Paz, CEO

Management Representation

Declaration of the most Senior Officer in the Finance Area

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

I, Sagi Kabla, declare that:

- (1) I have examined the interim financial statements and the other financial information included in the statements for interim periods of Israel Corporation Ltd. (hereinafter – “the Corporation”) as at March 31, 2017 (hereinafter – “the Statements”).
- (2) As far as I am aware, the financial statements and the other financial information included in the Statements do not include a misrepresentation of a material fact and they do not lack a material fact that is required so that the representations included therein, in light of the circumstances in which such representations were included, will not be misleading with reference to the period covered by the Statements.
- (3) As far as I am aware, the financial statements and other financial information included in the Statements properly reflect, in all material respects, the Corporation’s financial position, results of operations and cash flows as at the dates and for the periods to which the Statements relate.
- (4) I have disclosed to the Corporation’s auditing CPAs, Board of Directors and Audit and Financial Statements Committees, based on my most up-to-date estimation with respect to the internal control over the Corporation’s financial reporting and disclosure:
 - (a) All the significant deficiencies and weaknesses in determination or operation of the internal control over the financial reporting and disclosure to the extent it relates to the financial statements and the other financial information included in the Statements, which could reasonably have an adverse impact on the Corporation’s ability to gather, process, summarize or report financial information in such a manner that could cause doubt with respect to the reliability of the financial report and preparation of the financial statements in accordance with the provisions of law; and –
 - (b) Every fraud, whether or not significant, wherein the CEO is involved or a party under his direct supervision or other employees are involved that have a significant function in the internal control over the financial reporting and disclosure;
- (5) I, alone or together with others in the Corporation:
 - (a) Have determined controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, which are designed to ensure that significant information relating to the Corporation, including its subsidiaries as defined in the Securities Regulations (Annual Financial Statements), 2010, to the extent it is relevant to the financial statements and the other information presented in the Statements is brought to my attention by others in the Corporation and the subsidiaries, particularly during the period of preparation of the Statements; and –
 - (b) Have determined controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, which are designed to reasonably ensure the reliability of the financial report and preparation of the financial statements in accordance with the provisions of law, including in accordance with generally accepted accounting principles (GAAP);
 - (c) No event or matter that occurred during the period between the date of the latest Periodic Report and the date of this report was brought to my attention that is sufficient to change the conclusions of the Board of Directors and Management regarding the effectiveness of the internal control over the Corporation’s financial reporting and disclosure.

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

May 24, 2017

Sagi Kabla, CFO