

**Israel Corporation Ltd.**

Registrar Number: 520028010

Form 121  
Public

Securities of the Corporation are listed in the Tel Aviv Stock Exchange

Sort name: Israel Corporation

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Date of Transmission: 24/11/2011

Reference: 2011-01-338856

To:  
The Securities Authority  
via MAGNA

To:  
The Tel-Aviv Stock Exchange Ltd.  
via MAGNA

Dear Sir/Madam,

**Re: Immediate Report - Decrease of Zim's Rating**

Attached herewith is Maalot Report provided by Zim Integrated Shipping Services Ltd. ("**Zim**"), (a subsidiary of Israel Corporation Ltd.), regarding the decrease of Zim's rating to iBB-

*[English version of Maalot report to be attached]*

The date when the event first became known to the corporation: 24/11/2011, time: 14:20.

Reference of former documents in this regard (referring does not constitute incorporation by reference):

Former name of reporting entity:

The Israel Corporation Ltd.

Form structure updated 04/09/2011

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Name of Electronic Reporter: Maya Alchek Kaplan. Adv. Position: General Counsel (In House) and Company's Secretary. Aranha 23, Millennium Tower, Tel Aviv 61204. Phone – 03-6844517, Fax: 03-6844587, e-mail – [mayaak@israelcorp.com](mailto:mayaak@israelcorp.com)

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November 24, 2011

## Zim Integrated Shipping Services

### Rating Lowered To 'iBB-' On Forecast for Significantly Weaker Operating Performance And Deterioration In Liquidity Position

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#### Overview

- We anticipate negative operating cash flow in 2012, and believe there is a strong probability that Zim Integrated Shipping Services Ltd. will fail to meet its financial covenants in 2013 following worse than expected terms of trade in the shipping industry.
- Deteriorating freight rates, alongside supply side pressure will continue, in our view, to impact on the company's operating performance and on its liquidity profile, which we consider "weak".
- Agreements on amendments to Zim's financial covenants that have been reached with most of its financing banks are conditional on agreements with other banks, and negotiations on these are still ongoing.
- We are lowering our rating on Israel-based shipping company Zim Integrated Shipping Services Ltd. to 'iBB-' from 'iBBB-'.
- The negative outlook reflects our view that Zim will continue to report negative cash flow from its activities in the coming quarters and that it will continue to reduce its cash reserves, as well as our concerns that the company will fail to obtain all waivers necessary to avoid breaching its covenants in the first quarter of 2012.

#### Rating Action

On November 24, 2011, Standard & Poor's Maalot lowered the rating on Israel-based shipping company Zim Integrated Shipping Services Ltd. to 'iBB-' from 'iBBB-'. The outlook is negative.

#### Rationale

Our rating downgrade for Zim Integrated Shipping Services reflects the marked deterioration in the company's liquidity profile given the significant worsening of its ability to generate cash flow. In light of the difficult market conditions and the company's assessment that it will not meet its financial covenants starting in the fourth quarter of 2011 (that is, in the examination of the

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covenants in March 2012), the company approached its financing banks with the aim of obtaining waivers or easing of the covenants. While Zim has reached an agreement with most of its creditor banks, these are conditional on obtaining similar understandings with the banks with whom negotiations are still pending. While we believe the chances of obtaining these waivers are high, based on Zim's successful negotiations in recent weeks, there is no certainty that it will manage to reach an agreement with all of its banks. Therefore, we still see a risk that the company will be required to meet its current covenants package in March 2012, and in our view, the most reasonable working assumption is that without the required changes in covenants, Zim will be in breach of its major covenants based on its financial statements for 2011. While the company aims to reach a solution with banks regarding its covenants, we consider this as only a temporary solution, and we are particularly concerned about the company's highly challenging liquidity position at the end of 2012, and more certainly in 2013. Under the reasonable assumption that the company will manage to attain the required waivers for 12 months, according to the latest forecasts, Zim's uses will outstrip its sources from the end of 2012 or beginning of 2013, unless it obtains additional external sources for which there is no certainty, or if significant changes occur in the business climate. The current rating does not factor in any probability of these events occurring.

The company's operating performance weakened considerably in the first three quarters of 2011 as a result of the material worsening of terms of trade, a worsening more marked than we had previously forecasted. Significant surplus supply in the shipping industry has impacted negatively on freight rates, and the rise in fuel prices has damaged profit margins. The launch of new ships worldwide reached a four-year high in the second quarter of 2011, and led to a turnaround from a positive cycle that began in the first half of 2010, to a negative cycle which continues to prevail today. The SCFI index, which measures freight rates, completed a sharp decline of 26% in the 12 months between November 2010 and November 2011.

Zim reported a negative EBITDA of \$16 million in the third quarter of 2011 and negative EBITDA of \$26 million in the second quarter, compared to positive EBITDA of \$38 million in the first quarter of the year. Cash flow from continuing operations (after financing) was negative, and reached \$58 million in the first nine months of 2011 compared to robust cash flow (after financing) of \$280 million in 2010. Both the company's financial forecasts and our base-case scenario point to a continued trend of negative cash flow in 2012. While we expect that the company will likely meet its covenants based on Q3-2011 financial statements, we believe that without waivers, it will not meet its current covenants when examined against its financial statements for the year 2011. We therefore view the attainment of waivers as critical for Zim in order to avoid a default in 2012.

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#### Liquidity

Zim's liquidity position is "weak", according to our criteria. The company is currently relying on a waiver that it has partially obtained, and is in intense negotiations to reach a full agreement. The financial covenants are linked to the major part of its bank loans (representing about 85% of its total financial debt).

Our forecast for negative cash flow from operations (after financing), together with the company's cash balances including its safety net of \$100 million (given by Israel Corp. {ilA+/Stable} and the Ofer Group) will barely suffice to cover its debt repayments of \$370 million due from the last quarter of 2011 till the end of 2012. The company plans to sell additional assets in order to generate more cash, but these are, in our view, unlikely to be significant when compared to the level of uses, and the possible volatility in the operating deficit. Looking forward to 2013, the picture appears even more problematic. Without external support or drastic changes (which are currently not envisaged) in the terms of trade, the company may find itself in severe liquidity difficulties in 2013 without changes in its current debt amortization schedule.

#### Outlook

The negative outlook reflects the risk that Zim will not manage to obtain the full bank waivers it seeks, and as a result will need to immediately repay long-term loans. In this event, we would lower the company's rating to 'ilCCC' or 'ilCC' in order to reflect the risk of a default within months.

Should the company obtain the required waivers, which appears reasonable based on the strides it has achieved so far, this will quell the risk of an immediate repayment, and it would be reasonable to assume that the current rating will remain unchanged for the first half of 2012. In the second quarter of 2012 we will need to examine the company's plans for meeting its expected uses in 2013 and its ability to meet its financial covenants according to its updated financial forecast.

#### Ratings List

	Current rating	Former rating
Zim Integrated Shipping Services	ilBB-/Negative	ilBBB-/Stable
Series 1	ilBB-	ilBBB-
Series 2	ilBB-	ilBBB-
Series 3	ilBB-	ilBBB-

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