Israel Corporation Ltd.

Periodic Report

As at June 30, 2012

(UNAUDITED)

Contents

Part A – Report of the Corporation's Board Directors regarding the State of the Corporation's Affairs for the six months ended June 30, 2012

Part B – Condensed Interim Consolidated Financial Statements as at June 30, 2012 (unaudited)

Part C – Condensed Interim Separate-Company Financial Statements of the Corporation as at June 30, 2012 (unaudited)

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

Report of the Corporation's Board of Directors

For the Six Months Ended June 30, 2012

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

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

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

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

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

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

This Directors' Report is submitted as part of the interim financial statements for the period ended June 30, 2012. The Report has been prepared in a condensed format for the aforementioned period on the assumption that the reader is also in possession of the interim financial statements for the period ended June 30, 2011 and the periodic report for 2011.

FINANCIAL POSITION

– The total assets, as at June 30, 2012, amounted to about $15,528 million, compared with about $15,349 million, as at June 30, 2011, and compared with about $15,537 million, as at December 31, 2011.

– The current assets net of current liabilities, as at June 30, 2012 amounted to about $2,007 million, compared with of about $2,300 million as at June 30, 2011, and compared with about $414 million, as at December 31, 2011.

FINANCIAL POSITION (Cont.)

– The balance of the non-current assets, as at June 30, 2012 amounted to about $10,099 million, compared with about $9,661 million as at June 30, 2011, and compared with about $9,889 million, as at December 31, 2011.

– The non-current liabilities, as at June 30, 2012, amounted to about $7,944 million, compared with about $7,858 million, as at June 30, 2011, and compared with about $6,136 million, as at December 31, 2011.

– The total sales for the six-month and the three-month periods ended June 30, 2012 amounted to about $5,825 million and about $3,209 million, respectively, compared with about $5,723 million and about $3,144 million, respectively, for the corresponding periods ended June 30, 2011.

– The total equity as at June 30, 2012 amounted to about $4,162 million and the total equity attributable to the owners of the Corporation amounted to about $2,342 million, compared with equity of $4,103 million and total equity attributable to the owners of the Corporation of $2,432 million as at June 30, 2011, and compared with total equity of about $4,167 and total equity attributable to the owners of the Corporation of about $2,466 million as at December 31, 2011.

CHANGES IN THE INVESTMENT PORTFOLIO

Qoros Automotive Co. Ltd. (hereinafter – "Qoros")

1. In March and May 2012, the Corporation transferred, through a subsidiary, the amounts of about $36 million and about $24 million, respectively, to Qoros as part of the joint venture's business plan.

2. Subsequent to the date of the Report, the Corporation committed to Chery Automobile Co. Ltd. (hereinafter – "Chery") (which holds 50% of the share capital of Qoros) to pay it half of the amount it will need in respect of a guarantee it provided in connection with a financing agreement of Qoros with a consortium of foreign banks – this commitment being up to 750 million yuans (about $118 million) – and with respect to accompanying expenses and interest in connection with the principal amount of the loan. See detail below in "Various Events in the Corporation in the Year of Account and Thereafter", Section 12.

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

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

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

2. Further to that stated in Section 13 "Various Events in the Corporation in the Year of Account and Thereafter" in the Report of the Board of Directors as at December 31, 2011, pursuant to the decision of the Corporation's General Meeting on November 3, 2009, and approval of the Corporation's Audit Committee and Board of Directors regarding provision of a framework of $50 million as a reserve amount – in April–May 2012, the Corporation transferred $50 million to ZIM, as a loan convertible into shares of ZIM.

CHANGES IN THE INVESTMENT PORTFOLIO (Cont.)

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

2. (Cont.)

In June 2012, the Corporation decided to convert $25 million out of the reserve amount along with interest accrued in respect thereof into share capital of ZIM by means of an issuance of rights for shares of ZIM, based on a value derived from the shareholders' equity attributable to the Corporation's shareholders included in ZIM's latest financial statements prior to the conversion date. After the conversion, the Corporation holds about 99.7% of ZIM's share capital.

Israel Chemicals Ltd. (hereinafter – "ICL")

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

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

Subsequent to the date of the report, I.C. Power executed a financial close for receipt of bank financing, in the amount of $534 million, in connection with construction of a hydro project for production of electricity in Peru. The Corporation is a guarantor in an amount estimated at about $65 million and, in addition, the Corporation committed that its holdings in Inkia Energy will not fall below the rate of 50.1% (which it currently holds, indirectly, at the rate of 100%). These commitments are valid up to completion of construction of the project, which is expected to take place in 2016. See detail below in "Various Events in the Corporation in the Year of Account and Thereafter", Section 14.

RESULTS OF OPERATIONS

The Corporation finished the period of the report with income allocable to the owners of the Corporation of about $1 million, compared with income of about $55 million (after adjustments, see Notes 2D and 3A to the financial statements (hereinafter – "the Adjustments")) in the corresponding period last year.

The Corporation finished the second quarter of the period of the report with income allocable to the owners of the Corporation of about $83 million, compared with income of about $115 million (after the Adjustments) in the corresponding quarter last year.

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

– ICL finished the period of the report with income of about $696 million, compared with income of about $706 million in the corresponding period last year.

– Oil Refineries Ltd. (hereinafter – "ORL") which applies IFRS 9 (2010) in its financial statements, finished the period of the report with a loss of about $109 million, compared with a income of about $37 million (after the Adjustments) in the corresponding period last year.

  Israel Corporation does not apply IFRS 9 (2010) in its financial statements. Without the impact of application of IFRS 9 (2010), ORL finished the period of the report with a loss of about $109 million, compared with income of about $13 million (after the Adjustments) in the corresponding period last year.

RESULTS OF OPERATIONS (Cont.)

– ZIM finished the period of the report, with a loss of about $210 million, compared with a loss of about $179 million in the corresponding period last year.

  ZIM's loss in the period of the report, without the impact of the debt arrangement on the results, amounted to about $197 million, compared with a loss of about $167 million in the corresponding period last year.

– I.C. Power finished the period of the report with income of about $26 million, compared with income of about $20 million in the corresponding period last year.

– Tower Semiconductor Ltd. (hereinafter – "Tower") finished the period of the report (in accordance with IFRS) with a loss of about $19 million, compared with a loss of about $7 million in the corresponding period last year.

– Better Place LLC (hereinafter – "Better Place") finished the period of the report with a loss of about $99 million, compared with a loss of about $51 million in the corresponding period last year (after offset of interest to the preferred shareholders).

– Qoros finished the period of the report with a loss of about $32 million, compared with a loss of about $82 million in the corresponding period last year.

– The net financing expenses in the consolidated report in the period of the report amounted to about $199 million, compared with about $252 million in the corresponding period last year.

  The decrease in the net financing expenses stems mainly from the impact of the change in the CPI and the currency exchange rate on the shekel liabilities (mainly debentures and financial liabilities) and the impact of the fair value on transactions hedging liabilities, while on the other hand, there was an increase in the interest expenses on the net financial debt.

Set forth below are the factors which impacted the results of operations in the second quarter of the period of the report:

– ICL finished the second quarter of the period of the report with income of about $407 million, compared with income of about $426 million in the corresponding quarter last year.

– ORL finished the second quarter of the period of the report with a loss of about $99 million, compared with income of about $50 million (after the Adjustments) in the corresponding quarter last year. Without the impact of application of IFRS 9 (2010), ORL finished the second quarter of the period of the report with a loss of about $103 million compared with income of about $49 million (after the Adjustments) in the corresponding quarter last year.

– ZIM finished the second quarter of the period of the report with a loss of about $47 million, compared a loss of about $68 million in the corresponding quarter last year.

  ZIM's loss in the second quarter of the period of the report, without the impact of the debt arrangement on the results, amounted to about $36 million, compared with a loss of about $124 million in the corresponding quarter last year.

– I.C. Power Ltd. finished the second quarter of the period of the report with income of about $13 million, compared with income of about $8 million in the corresponding quarter last year.

– Tower finished the second quarter of the period of the report (in accordance with IFRS) with a loss of about $6 million, compared with income of about $3 million in the corresponding quarter last year.

RESULTS OF OPERATIONS (Cont.)

– Better Place finished the second quarter of the period of the report with a loss of about $48 million, compared with a loss of about $8 million in the corresponding quarter last year (after offset of interest to the preferred shareholders).

– Qoros finished the second quarter of the period of the report with a loss of about $13 million, compared with a loss of about $32 million in the corresponding period last year.

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

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

	Six months ended June 30		Three months ended June 30	
	2012	**2011**	**2012**	**2011**
	$ Millions			
ICL	**365**	370	**214**	223
ORL	**(41)**	*5	**(39)**	*18
ZIM	**(210)**	(178)	**(47)**	(67)
I.C. Power	**28**	26	**13**	11
Tower	**(6)**	(2)	**(2)**	1
Better Place	**(31)**	(16)	**(15)**	(2)
Qoros	**(16)**	(41)	**(6)**	(16)

(*)The contribution of ORL for the six-month and three-month periods ended June 30, 2011, after the Adjustments.

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

ISRAEL CHEMICALS LTD.

ICL finished the period of the report with net income of about $696 million, compared with net income of about $706 million in the corresponding period last year.

The ICL Group's sales in the period of the report amounted to about $3,517 million, compared with about $3,457 million in the corresponding period last year – an increase of about 2%. The increase stems from an increase in the sale prices and from consolidation of the financial statements of companies and activities acquired during 2011. On the other hand, the increase was partly offset by a decrease in the quantities sold and by a negative impact of a change in the currency exchange rates (mainly the euro versus the dollar).

ICL's activities outside of Israel are mainly in the production of downstream products or those based on ICL's activities in Israel or in related areas. About 93% of ICL's output is sold outside of Israel. About 46% of ICL's sales in the period of the report derives from manufacturing performed outside of Israel.

ISRAEL CHEMICALS LTD. (Cont.)

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

In August 2012, the U.S. Ministry of Agriculture published a report in connection with development of the agricultural products in the 2012/13 agricultural year. As a result of hot and dry weather conditions in the U.S., Russian and Ukrainian growing regions, the estimates regarding the anticipated harvest quantities were reduced, which gave rise to a sharp rise, mainly in the prices of corn and soya, as well as in the price of wheat. The dryness, as stated above, and the increase in prices of the agricultural commodities are expected to improve the demand for fertilizers in the upcoming fertilizer season[1]. Based on the report, an additional decline is expected with respect to the inventory of grains for the annual consumption to the level of 18.85% at the end of the 2012/2013 agricultural year, compared with 20.48% at the end of the 2011/2012 agricultural year and 20.7% at end of the 2010/2011 agricultural year.

In the short run, the demand for fertilizers is volatile and is impacted by factors such as the weather in the main agricultural growing areas worldwide, changes in the scope of the planting of the main items grown, cost of the agricultural inputs, prices of the agricultural products and the bio-technological developments. Some of these items are impacted by subsidies and credit lines granted to farmers or producers of agricultural inputs in the various countries and environmental protection regulation. The changes in the currency exchange rates, legislation and policies in connection with international trade also have an impact on the worldwide supply, demand and consumption levels of fertilizers. Notwithstanding the volatility that may be caused in the short run due to the above-mentioned factors, in ICL's estimation, the policy in most countries is to see to an orderly supply of high quality food to the residents, and as a result to encourage the agricultural production. Accordingly, the growth trend is expected to be maintained over the long run[1].

The second quarter of 2012 was characterized by low demand in the potash market compared with the corresponding quarter last year, however by an improvement compared with the first quarter of 2012. The demand for potash was unfavorably impacted due to postponement of orders by Indian importers and low demand in the United States and Europe. Despite the decline in demand in the potash market compared with the corresponding period last year, the shipments of ICL Fertilizers were higher than in the corresponding period last year as a result of shipments to China and Brazil. Shipments under the balance of the contracts with China and India and the continued strong demand in Brazil are expected to have a positive effect on the third quarter of 2012 as well.

---

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

ISRAEL CHEMICALS LTD. (Cont.)

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

ICL Fertilizers closed with its customers in China with respect to a quantity of 670 tons (including an optional 120 tons) for supply in the first half of the year, on the same terms as agreed to with the other international potash suppliers. A new contract for the second half of the year has not yet been signed.

There was also significant demand for potash in the Brazil market however the total import amounted to quantities lower than last year's.

Changes in the level of fertilizer subsidies in the Indian market and devaluation of the local currency against the dollar caused an increase in the retail price of potash and phosphate fertilizers for agriculture. As a result, there was a decline in the demand for these fertilizers in India. In the past three months, due to a decline in the local inventories and approach of the fertilizing season, there was an increase in demand, notwithstanding statements made by the Indian importers of a significant and continuing adverse impact on demand if the price remains at the current level. In ICL's estimation, supply of the potash under the potash contracts signed last year with the Indian customers is expected to end by the end of the third quarter of the year[2].

There was a moderate improvement in the demand for phosphate fertilizers compared with the corresponding quarter last year as well as an improvement compared with the preceding quarter. Closing of the contract for supply of phosphate fertilizers to India, by the DAP producers, toward the end of the second quarter, at a price of $580 per ton of DAP, revitalized the demand in the market and determined a base price for market transactions. Improved demand for phosphate fertilizers was also visible in the Brazilian market.

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

The activities of ICL Industrial Products are affected, to a significant extent, by the level of activity in the electronics, construction, vehicle, oil drilling, furniture, pharmaceuticals, agricultural, textiles, and water treatment products' markets. The uncertainty that characterized the first half of 2012 led to a fall in demand for bromine-based flame retardants, mainly in the market for electronics products. In addition, there are signs of a decline in demand for bromine in China that are also accompanied by a decrease in the sale prices. The decline in the gas prices in the United States increased the use of gas for production of electricity instead of the use of coal, which in turn gave rise to a decrease in the expected growth rate of the new line of products, non-organic bromides for elimination of mercury, which is intended to assist in reducing the mercury emitted in the power stations run on coal.

---

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

ISRAEL CHEMICALS LTD. (Cont.)

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

In the current quarter, the decline in prices in the fertilizers' market continued, which impacted the competition in the market for phosphate-based products.

Marine transportation costs constituted about 7% of ICL's total operating costs in the period of the report. In previous years, the marine transportation prices have been characterized by extreme volatility, where the trend is a decline in the Marine Prices index. The average index for the second quarter of 2012 was 1,016 points, constituting a decline of about 26% compared with the corresponding quarter last year. Nonetheless, the average index for the second quarter is about 07% higher than the average index for the first quarter of 2012, which was 867 points.

The energy costs constituted about 8% of ICL's total operating costs in the period of the report. Starting from 2009, the energy prices have been steadily on the rise. The fuel-based energy prices in the current quarter were higher than in the corresponding quarter last year. In addition, on January 26, 2012, the Yam Thetys Partnership gave notice of reduction of the quantity of gas it is supplying, due to depletion of gas in the well. The rate of the decline in the supply of gas from Yam Thetys in the months from December 2011 up to June 2012 amounted to about 50%. In addition, with reference to the use potential in the second quarter, the rate of the decline is about 73%. (For additional details – see Note 6F to the financial statements).

The gross profit rate in the period of the report was about 42% of the sales, compared with about 44% in the corresponding period last year. The decrease in the gross profit rate compared with the corresponding period last year stems mainly from a decrease in the quantities sold, an increase in the raw material and energy prices, an increase in the other operating expenses and the impact of changes in the exchange rates. This decrease was partially offset by an increase in the selling prices and from inclusion of the results of companies and activities acquired and consolidated for the first time during 2011.

The rate of the operating income out of the total sales was about 25%, compared with about 26% last year. The decrease in the marginal operating income stems mainly from the decrease in the gross profit, as stated above.

In the period of the report, there was an increase in ICL's net financing expenses, in the amount of about $2 million, over the corresponding period last year. The increase in the financing expenses in the period over last year derived mainly from expenses in the period from transactions in financial derivatives, revaluation of net short-term financial liabilities, and an increase in the interest expenses. On the other hand, income was recorded in the period as a result of revaluation of long-term financial liabilities (mainly pension).

The taxes on income in the period of the report amounted to about $154 million, compared with taxes on income of about $157 million in the corresponding period last year. The rate of tax on the pre-tax income was about 18%, about the same as in the corresponding period last year.

Second quarter of the period of the report compared with the corresponding quarter last year

The net income in the second quarter of the period of the report amounted to about $407 million, compared with about $426 million in the corresponding quarter last year.

ISRAEL CHEMICALS LTD. (Cont.)

Second quarter of the period of the report compared with the corresponding quarter last year (Cont.)

The total sales in the second quarter of the period of the report amounted to about $1,965 million, compared with about $1,929 million in the corresponding quarter last year – an increase of about 2%. This increase derives mainly from an increase in the selling prices, an increase in the quantities sold and consolidation of the financial statements of companies and activities acquired during 2011. On the other hand, the increase was partly offset by the negative impact of the change in the currency exchange rates.

The rate of the gross profit on the sales in the quarter amounted to about 43%, compared with about 45% in the corresponding quarter last year. The decline in the gross profit rate stems mainly from an increase in the raw material and energy prices, an increase in the other operating expenses and the impact of the change in the currency exchange rates. This decline was partly offset by an increase in the quantities sold and the selling prices.

The rate of the operating income out of the total sales was about 28%, about the same as in the corresponding quarter last year. The increase in the operating income stemmed from a decline in the selling and marketing expenses and the administrative and general expenses. On the other hand, this increase was partly offset by the impact of the decline in the gross profit.

The net financing expenses in the second quarter amounted to about $29 million, compared with financing expenses of about $21 million, in the corresponding quarter last year. The increase in the financing expenses derived mainly from expenses in the period from transactions in financial derivatives, revaluation of net short-term financial liabilities, and an increase in the net interest expenses as a result of the increase in the net financial liabilities along with an increase in the increase rate. On the other hand, income was recorded in the period from revaluation of long-term financial liabilities (mainly pension).

Other developments in the period of account and thereafter

1. On January 1, 2012, the Government approved the proposal of the Ministry of Finance regarding the permanent solution for the water level of the Dead Sea and the royalties. On January 3, 2012, Man, Nature and Law – the Israeli Society for Protection of the Environment and the Movement for Quality of the Governance in Israel, filed a petition in the Supreme Court sitting as the High Court of Justice, for issuance of a conditional order and a request for an interim order against the Government of Israel, the Ministry of Finance and Dead Sea Works, regarding the decision of the Government of Israel. On May 24, 2012, the High Court of Justice summarily dismissed the petition and also charged the petitioners for expenses. On July 8, 2012, the Government of Israel and Dead Sea Works signed an agreement spelling out the substance of the outline of principles. For additional details – see Section 8.8.20A to the Description of the Corporation's Business as at December 31, 2011.

2. On January 26, 2012, the Yam Thetys Partnership notified that it is forced to reduce the quantity of gas it is supplying due to depletion of the gas in the well. ICL's subsidiary, DSW, is making efforts to realize its legal rights pursuant to the agreement with the Partnership. For additional details – see Section 8.8.20E of the "Description of the Corporation's Business" as at December 31, 2011 and Note 6F to the financial statements.

ISRAEL CHEMICALS LTD. (Cont.)

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

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

   On June 4, 2012, EMG notified DSW that the cancellation notification it received from EGPC/EGAS is final and the agreement between has come to an end. For additional details – see Section 8.8.20E to the Description of the Corporation’s Business as at December 31, 2011.

4. ICL Fertilizers presently operates a power station for production of electricity at Sdom and also purchases electricity from Israel Electric Company. On June 28, 2012, ICL’s subsidiary, DSW, signed agreements for purposes of execution of a project with respect to construction of a new cogeneration plant in Sdom. The station will have “two-fuel” operation capabilities and will have steam production capacity of 330 tons per hour and electricity production capacity of 250 megawatts, which will supply all the electricity and steam requirements of the production facilities on the Sdom site in the upcoming years. The project is expected to commence in the third quarter of 2012 and to be completed in the middle of 2015. The total cost of the project is estimated at about $320 million.

5. Subsequent to the date of the report, on July 1, 2012, a revised request was filed with the Court for approval of a compromise arrangement regarding a class action claim filed against a subsidiary of ICL in the ICL Industrial Products segment, after receiving approval of the Government Attorney General. For additional details – see Note 22.B.2.b.4 to the annual financial statements.

6. Subsequent to the date of the report, on July 8, 2012, an agreement was signed between the Ministry of Finance and DSW, constituting an appendix to a letter received by DSW in December 2007 from the Ministry of Finance wherein it was determined that the share of DSW in the cost of protecting the buildings and protecting the shore line with respect to the level of the Dead Sea (hereinafter – “the Beach Protection”) is at the rate of 39.5%. In the signed appendix clarifications were included to a number of matters relating to execution and planning of the Beach Protection. The rate of DSW’s participation in financing the protections remains unchanged, as well as the determination that the Government Company for Protections of the Dead Sea Ltd. is responsible for initiation and execution of the Beach Protection project.

OIL REFINERIES LTD.

ORL, which applies IFRS 9 (2010) in its financial statements, completed the period of the report with a loss of about $105 million, compared with income of about $37 million (after the Adjustments) in the corresponding period last year. Israel Corporation does not apply IFRS 9 (2010) in its financial statements. Without the impact of IFRS 9 (2010), ORL finished the period of the report with a loss of about $109 million, compared with income of about $13 million (after the Adjustments) in the corresponding period last year.

OIL REFINERIES LTD. (Cont.)

The total sales in the period of the report amounted to about $4,900 million, compared with about $4,711 million in the corresponding period last year. The increase in the total sales derived mainly from an increase in the average price of the fuel products. The average price per ton of the main products' basket in the Mediterranean Sea area that is roughly the same as the basket produced by ORL was about $967 in the period of the report, compared with about $914 in the corresponding period last year. In the local market, in the period of the report, there was an increase of about 24% in consumption of the refined fuel products, compared with the corresponding period last year, mainly due to return of Israel Electric Company to production through diesel heating fuel.

The operating loss in the period of the report amounted to about $65 million, compared with operating income of about $105 million in the corresponding period last year. The decrease in the operating income derived mainly from a decrease in the accounting margins in the fuels and petrochemical segments, and increase in the production and administrative and general expenses, which was offset by an increase in the quantities sold, revenues from the trading segment and other revenues.

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

	January–June		April–June	
	2012	**2011**	**2012**	**2011**
Neutralized margin	**37.4**	18.0	**45.1**	11.2
Less –				
Impact of application of method for recording derivatives (under IFRS)	**6.5**	10.1	**14.2**	37.9
Impact of timing differences of purchases and sales	**(8.4)**	14.6	**(32.5)**	11.8
Provision for decline in value of inventory as at the date of the report	**(5.4)**	(2.2)	**(13.6)**	(4.2)
Accounting margin	**30.1**	40.5	**13.2**	56.7

The net financing expenses (without the impact of IFRS 9 (2010)), in the period of the report amounted to about $70 million, compared with net financing expenses of about $75 million in the corresponding period last year. The financing expenses decreased in the period of the report mainly due to revaluation to fair value of the financial derivatives and an increase in the revenues from the securities' portfolio. This decrease was offset by an increase in the interest on loans and debentures.

Second quarter of the period of the report compared with the corresponding quarter last year

ORL completed the second quarter of the period of the report with a loss of about $99 million, compared with income of about $50 million (after the Adjustments) in the corresponding quarter last year. Without the impact of IFRS 9 (2010), ORL finished the second quarter with a loss of about $103 million, compared with income of about $49 million (after the Adjustments) in the corresponding quarter last year.

The total sales in the second quarter of the period of the report totaled about $2,452 million, compared with about $2,653 million in the corresponding quarter last year. The average price per ton of the main products' basket in the Mediterranean Sea area that is roughly the same as the basket produced by ORL was about $969 in the second quarter of the period of the report, compared with about $961 in the corresponding quarter last year.

The operating loss in the second quarter of the period of the report amounted to about $107 million, compared with operating income of about $94 million in the corresponding quarter last year. The decrease in the operating income derived mainly from a decrease in the accounting margins in the fuels and petrochemical segments, and a decrease in the other revenues, which was offset by an increase in the quantities sold, a decline in the administrative and general expenses and an increase in the revenues in the trading segment.

OIL REFINERIES LTD. (Cont.)

As at June 30, 2012, ORL was in compliance with the required financial covenants in connection with long-term loans in the construction period of the project for establishment of a facility for production of clean fuels (hereinafter – "the Hydrocracker"). Since as at March 31, 2012, ORL was not in compliance with the required minimum adjusted EBITDA ratio covenant, ORL requested and received waiver letters from the financing banks whereby ORL would not be required to comply with the required minimum adjusted EBITDA ratio covenant with respect to the first quarter of 2012.

Subsequent to the period of the report, ORL and the financing entities reached agreements regarding changes in the financial covenants constituting part of the financing agreements, such that for the period from June 30, 2012 up to December 31, 2013, new financial covenants will apply to ORL in place of the financial covenants provided in the financing agreements.

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

Subsequent to the date of the report, on August 26, 2012, Midrug notified Carmel Olefins Ltd., a subsidiary of ORL, regarding reduction of the rating of Carmel Olefins Ltd., to a rating of (A3) with a negative rating outlook from (A2).

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

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

	Six Months Ended June 30		**Three Months Ended June 30**	
	2012	**2011**	**2012**	**2011**
	$ Millions			
Revenues from shipping and accompanying services	**1,916**	1,912	**1,051**	1,000
Costs of shipping and accompanying services	**(1,885)**	(1,833)	**(980)**	(990)
Operating depreciation	**(78)**	(81)	**(39)**	(41)
Gross profit (loss)	**(47)**	(2)	**32**	(31)
Other operating income (expenses), net	**3**	(2)	**3**	(4)
Administrative and general expenses	**(72)**	(82)	**(34)**	(44)
Operating income (loss)	**(116)**	(86)	**1**	(79)
Financing income (expenses), net	**(85)**	(94)	**(44)**	11
Share in income of associated companies, net	**4**	15	**3**	8
Taxes on income	**(9)**	(7)	**(4)**	(5)
Loss for the period	**(206)**	(172)	**(44)**	(65)
Attributable to:				
Holders of non-controlling interests	**4**	7	**3**	3
The owners of the Corporation	**(210)**	(179)	**(47)**	(68)
	(206)	(172)	**(44)**	(65)

ZIM INTEGRATED SHIPPING SERVICES LTD.

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

	Six Months Ended June 30		Three Months Ended June 30	
	2012	**2011**	**2012**	**2011**
	$ Millions			
Cash provided by (used in) operating activities	**(57)**	25	**24**	(6)
Cash provided by (used in) investing activities	**(17)**	37	**(15)**	72
Cash provided by (used in) financing activities	**36**	(225)	**30**	(95)
Net increase (decrease) in cash and cash equivalents	**(38)**	(163)	**39**	(29)
Cash and cash equivalents at end of the period	**155**	328	**155**	328
Proceeds from sale of ships and equipment, property, plant and equipment and intangible assets	**12**	5	**8**	2
Total depreciation, amortization and decline in value	**93**	99	**45**	54

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

	As at June 30	
	2012	**2011**
	$ Millions	
Total financial liabilities (1)	**2,596**	2,638
Total monetary assets (2)	**159**	386
Total equity attributable to the owners	**180**	564
Total assets	**3,438**	3,889
Payments on account of construction of ships	**255**	255

(1) Not including trade payables, other payables and credit balances and financial instruments.
(2) Not including trade receivables, other receivables and debit balances and financial instruments.

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

	Six Months Ended June 30 2012
	$ Millions
Balance as at January 1, 2012	351
Loss for the year	(210)
Reserve in respect of transactions with controlling shareholders	12
Issuance of share capital	25
Other comprehensive income for the period	2
Balance as at June 30, 2012	**180**

ZIM INTEGRATED SHIPPING SERVICES LTD. (Cont.)

Brief description of ZIM's results:

The loss in the period of the report attributable to ZIM's owners amounted to about $210 million, compared with a loss of about $179 million in the corresponding period last year.

ZIM's revenues in the period of the report amounted to about $1,916 million, compared with about $1,912 million in the corresponding period last year. In the period of the report, the quantities shipped increased compared with the corresponding period last year by about 2%, from about 1,151 thousand containers to about 1,173 thousand containers. On the other hand, the average shipping price per container decreased by about 4% from about $1,333 per container to about $1,276 per container.

In the period of the report, ZIM's operating expenses amounted to about $1,885 million, compared with about $1,833 million in the corresponding period last year – an increase of about 3%. The increase in the operating expenses stems mainly from an increase in fuel expenses, in the amount of about $112 million, stemming mostly from an increase in the fuel prices, and from an increase in the ship and container leasing expenses, in the amount of about $40 million, and was offset by a decrease in expenses relating to uncompleted voyages, in the amount of about $71 million and a decrease in expenses of the subsidiaries and other expenses, in the amount of about $33 million.

In the period of the report, the administrative and general expenses decreased by about 11%. The decrease in the administrative and general expenses stems mainly from a decrease in the professional consulting expenses and devaluation of the shekel/dollar exchange rate.

ZIM's operating loss in the period of the report amounted to about $116 million, compared with a loss of about $86 million in the corresponding period last year. The increase in the operating loss stems mainly from an increase in the operating expenses, in the amount of about $52 million, which was partially offset by a decrease in the administrative and general expenses, in the amount of about $9 million, and an increase in the revenues, in the amount of about $4 million.

ZIM's EBITDA[3] in the period of the report was negative in the amount of about $23 million, compared with EBITDA of about $13 million in the corresponding period last year.

ZIM's net financing expenses in the period of the report decreased by about $9 million compared with the corresponding period last year. The decrease in the financing expenses stems mainly from a decrease in exchange rate and linkage expenses and a decrease in the loss from hedging transactions, which was offset by a change in the revaluation of derivatives in respect of the debt arrangement.

Second quarter of the period of the report compared with the corresponding quarter last year

The loss in the quarter attributable to ZIM's owners, amounted to about $47 million, compared with a loss of about $68 million in the corresponding quarter last year.

ZIM's revenues in the second quarter of the report amounted to about $1,051 million, compared with about $1,000 million in the corresponding quarter last year – an increase of about 5%. The increase in the revenues derives mainly from an increase in the quantities shipped, an increase in revenues from uncompleted voyages and an increase in revenues from subsidiaries. The quantities shipped increased by about 1% from about 596 thousand containers to about 604 thousand containers. In addition, the average shipping fees per container increased by 0.5% – from about $1,307 per container to about $1,314 per container.

---

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

ZIM INTEGRATED SHIPPING SERVICES LTD. (Cont.)

In the second quarter of the report, ZIM's operating expenses amounted to about $980 million, compared with about $990 million in the corresponding quarter last year – a decrease of about 1%. The decrease in the operating expenses stems mainly from a decrease in expenses relating to uncompleted voyages, in the amount of about $68 million, which was offset by an increase in fuel expenses, in the amount of about $49 million, and in ship and container leasing expenses, in the amount of about $14 million.

In the second quarter, the administrative and general expenses decreased by about 23% compared with the corresponding quarter last year. The decrease in the administrative and general expenses stems mainly from a decrease in the professional consulting expenses and devaluation of the shekel/dollar exchange rate.

ZIM's operating income in the second quarter amounted to about $1 million, compared with an operating loss of about $79 million in the corresponding quarter last year. ZIM's transition to operating income stems mainly from an increase in the revenues, in the amount of about $51 million, from a decrease in the operating expenses, in the amount of about $10 million, and from a decrease in the administrative and general expenses, in the amount of about $10 million.

ZIM's EBITDA in the second quarter amounted to about $46 million, compared with negative EBITDA of about $25 million in the corresponding quarter last year.

ZIM's net financing expenses in the second quarter increased by about $55 million compared with the corresponding period last year. The increase in the financing expenses stems mainly from a change in the revaluation of derivatives in respect of the debt arrangement, in the amount of about $69 million, which was offset by a change in exchange rate and linkage expenses, in the amount of about $9 million, and in the hedging transactions, in the amount of about $5 million.

Other developments in the period of the report and thereafter

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

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

ZIM INTEGRATED SHIPPING SERVICES LTD. (Cont.)

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

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

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

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

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

6. For details regarding provision of the amount of $50 million to ZIM by Israel Corporation in the form of a convertible loan, half of which was converted into shares of ZIM during the period of the report – see detail above in the Section "Changes in the Investment Portfolio".

7. In light of the worsening of the situation in the shipping sector and its adverse impact on ZIM's results, during the first quarter of 2012 ZIM completed formulation of an updated long-term business plan – for details see Section 9.18 to the Description of the Corporation's Business Report for 2011.

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

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

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

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

ZIM INTEGRATED SHIPPING SERVICES LTD. (Cont.)

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

8. (Cont.)

   The conditions and financial covenants, as stated, include update[4] of some of the conditions and financial covenants provided in the Rehabilitation Plan with reference to the same covenant, and are in addition to various other conditions included in each of the agreements under the Rehabilitation Plan dealing with ZIM's other obligations.

I.C. POWER LTD.

I.C. Power finished the period of the report with net income of about $26 million, compared with income of about $20 million in the corresponding period last year. After eliminating the financing expenses to Israel Corporation the net income for the period amounted to about $28 million, compared with income of about $26 million in the corresponding period last year.

I.C. Power's total revenues in the period of the report amounted to about $273 million, compared with about $277 million in the corresponding period last year.

I.C. Power's proportionate EBITDA (the proportionate amount of the EBITDA of each of the operating investee companies) in the period of the report amounted to about $88 million, compared with proportionate EBITDA of about $93 million in the corresponding period last year. The decline stems mainly from a decrease in the income of a subsidiary in El Salvador (due to transition of the electricity market for the marginal cost method), which was offset by an increase in Edegel A.A.S., an associated company in Peru, and the first-time consolidation of a subsidiary in Chile.

As at the date of the report, I.C. Power's net consolidated debt (excluding the loan from Israel Corporation) amounted to about $886 million, compared with a net consolidated debt of about $409 million in the corresponding period last year.

As at the date of the report, I.C. Power's net proportionate debt (the net debt of I.C. Power plus its proportionate share in the net debt of each of the investee companies) amounted to about $783 million, compared with a net proportionate debt of about $398 million in the corresponding period last year. The increase in the debt derives from loans taken out for purposes of construction of the power station of O.P.C. in Israel, completion of the project for closing the open cycle in Kalpa and commencement of the hydro project in Peru.

Second quarter of the period of the report compared with the corresponding quarter last year

I.C. Power finished the second quarter of the period of the report with income of about $13 million, compared with income of about $8 million in the corresponding quarter last year. After eliminating the financing expenses to Israel Corporation the net income for the period was about the same as the income without elimination of the financing expenses, compared with income of about $11 million in the corresponding period last year.

I.C. Power's total revenues in the second quarter of the period of the report amounted to about $140 million, compared with about $147 million in the corresponding quarter last year.

---

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

I.C. POWER LTD. (Cont.)

Second quarter of the period of the report compared with the corresponding quarter last year (Cont.)

I.C. Power's proportionate EBITDA in the second quarter of the period of the report amounted to about $45 million, compared with proportionate EBITDA of about $49 million in the corresponding quarter last year.

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

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

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

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

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

Other developments in I.C. Power

1. As at the signing date of the financial statements, O.P.C. Rotem Ltd. (hereinafter – "O.P.C.") has signed eight binding agreements for supply of electricity for periods of about 10 years, of which two were signed during 2012. Some of the agreements include options to increase the quantity of electricity purchased. In O.P.C.'s estimation, taking into account the options to increase the quantity of electricity purchased, the total quantity of electricity purchased under the said agreements covers most of the station's manufacturing capacity. Some of these agreements are subject to preconditions.

2. In January 2012, a rating of AA3 with a stable outlook was approved by the Rating Committee of Midrug Ltd. for the senior debt of O.P.C., in connection with a project for construction of a power station. The rating relates to the operation period.

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

4. I.C. Power executed a financial close for receipt of bank financing, in the amount of $534 million, in connection with construction of a hydro project for production of electricity in Peru, Cerro del Aguilla (hereinafter – "CDA"), the planned capacity of which is about 510 megawatts (hereinafter – "the Project"). The cost of the planned investment in the Project is about $900 million, including interest during the construction period.

   The loan was received from a consortium of 11 foreign banks for a period of 12 years and the average interest is Libor plus about 5%. The first withdrawal is contingent on certain preconditions.

   Israel Corporation is a guarantor in an amount estimated at about $65 million and, in addition, Israel Corporation committed that its holdings in Inkia Energy will not fall below the rate of 50.1% (which it currently holds, indirectly, at the rate of 100%). These commitments are valid up to completion of construction of the project, which is expected to take place in 2016.

   I.C. Power holds CDA (indirectly) at the rate of 74.9%. The partner, which holds the balance of 25.1%, provided a concurrent guarantee based on its proportionate share.

I.C. POWER LTD. (Cont.)

Other developments in I.C. Power (Cont.)

5. Projects under construction:

   A. In 2009, Kallpa Generacion S.A. (Peru) (hereinafter – "Kallpa"), a subsidiary of Inkia, started a project for conversion of its thermal plant to running based on a combined cycle. The cost of the project is estimated at about $400 million, including interest during the construction period. As at June 30, 2012, Kallpa had invested about $352 million in the project. On August 8, 2012, the commercial operation of the station commenced.

   B. In 2010, O.P.C. commenced construction of a power station having a capacity of about 440 megawatts in Israel. As at June 30, 2012, O.P.C. had invested about $360 million in the project. Up to the publication date of this report, about 90% of the project had been completed. Netivei Gas completed connection of the power station to the national gas distribution network and it is now waiting for the "gas permit". At the same time, Israel Electric Company is almost finished constructing the power line that connects the power station to the national electricity network. Test runs of auxiliary equipment systems are expected to begin in the third quarter of the year.

   C. In November 2011, CDA, a subsidiary of Inkia, signed an agreement for construction of a hydroelectric power station. As at June 30, 2012, CDA had invested about $83 million in the project and up to the end of July, CDA had invested about $102 million in the project.

TOWER SEMICONDUCTOR LTD.

In the period of the report, Tower's sales amounted to about $336 million, compared with about $260 million in the corresponding period last year – an increase of about 29%. The gross profit in the period of the report amounted to about $51 million, about the same as the gross profit in the corresponding period last year.

Tower finished the period of the report (pursuant to IFRS) with a loss of about $19 million, compared with a loss of about $7 million in the corresponding period last year.

The financing expenses (pursuant to IFRS) in the period of the report amounted to about $18 million, compared with about $33 million in the corresponding period last year.

In the second quarter of the period of the report, Tower's loss (pursuant to IFRS) amounted to about $6 million, compared with income of about $3 million in the corresponding quarter last year.

The total sales in the second quarter of the period of the report amounted to about $168 million, constituting an increase of about 21% compared with the corresponding quarter last year.

BETTER PLACE INC.

Better Place's net loss in the period of the report, including interest to the holders of the preferred shares, amounted to about $132 million, compared with a loss of about $74 million in the corresponding period last year.

Better Place's net loss in the second quarter of the period of the report, including interest to the holders of the preferred shares, amounted to about $65 million, compared with a loss of about $20 million in the corresponding period last year.

The financial statements of Better Place for the period of the report are attached to the Corporation's financial statements.

QOROS AUTOMOTIVE CO. LTD.

As at the date of the report, Qoros had not yet commenced its commercial activities. The loss of Qoros in the period of the report amounted to about $32 million, compared with a loss of about $82 million in the corresponding period last year.

In the second quarter of the period of the report, the loss amounted to about $13 million, compared with a loss of about $32 million in the corresponding quarter last year.

Commencing from the fourth quarter of 2011, Qoros recognizes costs in respect of development activities as an intangible asset.

The financial statements of Qoros for the period of the report are attached to the Corporation's financial statements.

SOURCES OF FINANCING FOR THE CORPORATION AND THE HEADQUARTERS COMPANIES

As at June 30, 2012, the total financial liabilities of the Corporation and of the wholly owned and controlled headquarters companies (hereinafter – "the Headquarters Companies") amounted to about $2,495 million. The fair value of interest rate, currency and index SWAP transactions, mainly in respect of the debentures, economically reduces the liabilities by the amount of about $96 million.

As at the date of the report, the investments of the Corporation and of the Headquarters Companies in liquid assets amounted to about $741 million. The investments are mainly in short-term deposits.

The net debt of the Corporation and of the Headquarters Companies as at the date of the report was about $1,658 million.

The Corporation received long-term loans from institutional investors in the amount of $250 million and repaid current maturities of long-term loans and short-term loans in a similar amount.

In the period of the report, the Corporation raised the amount of about $144 million by means of expanding the debentures (Series 7) and the debentures (Series 9). The average life of the said the debentures is 4-6 years.

The Corporation paid current maturities of debentures and long-term loans in the amount of about $125 million (net of hedging transactions in respect thereof).

Subsequent to the date of the report, the Corporation expanded the debentures (Series 7), in the additional amount of about $45 million, and also received long-term loans, mainly from foreign banks, in the amount of about $255 million.

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

As at June 30, 2012, the scope of the exposure of the Headquarters Companies to a decline in the shekel exchange rate against the dollar was about $140 million. The scope of the exposure to a rise in the Consumer Price Index was about $105 million and to an increase in the Libor interest rate about $300 million.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT

Corporation's Consolidated Derivative Positions as at June 30, 2012

	Recognized for Accounting Purposes				Not Recognized for Accounting Purposes			
	Par Value		Fair Value		Par Value		Fair Value	
	Long	Short	Long	Short	Long	Short	Long	Short
	Millions of Dollars							
Hedging changes in variable LIBOR interest rate on dollar loans (1)								
Up to one year								
COLLAR transactions	–	–	–	–	75	–	(1)	–
IRS transactions	–	–	–	–	250	–	(5)	–
More than one year								
CAP options	–	–	–	–	392	–	–	–
FLOOR options	–	–	–	–	392	–	(13)	–
COLLAR transactions	–	–	–	–	295	–	(7)	–
IRS transactions	126	–	(9)	–	1,422	48	(56)	6
Hedging changes in exchange rate and interest rate on loans								
More than one year								
SWAP to dollar liability with variable interest from index-linked liability with fixed interest	–	–	–	–	–	952	–	156
SWAP to dollar liability with variable interest from shekel liability with fixed interest	–	–	–	–	–	205	–	(9)
SWAP to dollar liability with fixed interest from index-linked liability with fixed interest	–	97	–	1	–	10	–	1
SWAP to dollar liability with fixed interest from shekel liability with fixed interest	–	227	–	(8)	–	92	–	(3)
SWAP to shekel liability with variable interest from shekel liability with fixed interest	–	–	–	–	–	66	–	2

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

Short – liability for payment in variable interest.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

Corporation's Consolidated Derivative Positions as at June 30, 2012

	Recognized for Accounting Purposes				Not Recognized for Accounting Purposes			
	Par Value		Fair Value		Par Value		Fair Value	
	Long	Short	Long	Short	Long	Short	Long	Short
	Millions of Dollars							
Hedging changes in the CPI-linked interest rate								
Forward contract for acquisition of index differentials – up to one year	–	–	–	–	24	–	–	–
Forward contract for acquisition of index differentials – more than one year	–	–	–	–	75	–	–	–
Forward contract to fix index-linked interest rate – up to one year	–	–	–	–	90	–	(9)	–
Other derivatives in a subsidiary								
More than one year								
Option for early repayment of debentures	–	–	–	–	401	–	132	–
Option issued for lease price of ships	–	–	–	–	–	–	–	(8)
Transactions for hedging fuel prices								
Forward contract up to one year	22	–	–	–	96	–	(11)	–
Collar transactions up to one year	–	–	–	–	115	–	(5)	–
Transactions hedging energy prices and shipping fees								
Up to one year	–	–	–	–	74	–	(15)	–
More than one year	–	–	–	–	23	–	(4)	–
Hedging changes in exchange rates on cash flows (2)								
Up to one year								
Euro/Dollar								
Forward contract	22	–	–	–	162	–	–	–
Call options	–	–	–	–	19	–	–	–
Put options	–	–	–	–	19	–	1	–
Shekel/Dollar								
Forward contract	23	–	–	–	–	403	–	(3)
Call options	–	–	–	–	–	702	–	(15)
Put options	–	–	–	–	–	716	–	5

(2) Long – receipt in dollars against the counter currency.

Short – payment in dollars against the counter currency.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

Corporation's Consolidated Derivative Positions as at June 30, 2012

	Recognized for Accounting Purposes				Not Recognized for Accounting Purposes			
	Par Value		Fair Value		Par Value		Fair Value	
	Long	Short	Long	Short	Long	Short	Long	Short
	Millions of Dollars							
Yen/Dollar								
Forward contract	–	–	–	–	17	–	–	–
Call options	–	–	–	–	17	–	–	–
Put options	–	–	–	–	17	–	–	–
Other Forward Contracts								
Dollar / British pound – up to one year	–	–	–	–	–	73	–	–
British pound / euro – up to one year	–	–	–	–	1	–	–	–
Shekel / Japanese yen – up to one year	5	–	–	–	–	–	–	–
Chinese yuan / dollar – more than one year	–	–	–	–	–	133	–	4

(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 in respect of changes in market factors (consolidated)

Sensitivity to changes in interest

Sensitivity to changes in shekel interest linked to the CPI:

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 1%	Rise of 0.5%		Fall of 0.5%	Fall of 1%
Instrument Type					
Long-term loans from banks	28	14	(397)	(15)	(30)
Debentures	51	26	(1,649)	(27)	(54)
SWAP transactions from index to dollar*	(42)	(21)	158	22	45
Transaction fixing index-linked interest*	9	4	(9)	(5)	(9)
Total	**46**	**23**	**(1,897)**	**(25)**	**(48)**

Sensitivity to changes in shekel interest:

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 1%	Rise of 0.5%		Fall of 0.5%	Fall of 1%
Instrument Type					
Debentures	10	5	(435)	(5)	(10)
SWAP transactions from fixed shekel interest to dollar*	(13)	(7)	(18)	7	14
Total	**(3)**	**(2)**	**(453)**	**2**	**4**

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

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to changes in interest (Cont.)

Sensitivity to changes in Libor interest:

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 1%	Rise of 0.5%		Fall of 0.5%	Fall of 1%
Instrument Type					
Derivatives in respect of debt arrangement in subsidiary	(1)	(1)	35	1	1
Long-term loans from banks	30	15	(1,041)	(16)	(32)
Debentures	29	15	(640)	(15)	(31)
SWAP transactions from shekel and index to fixed dollar*	13	6	(9)	(7)	(13)
IRS transactions variable to fixed*	25	12	(65)	(12)	(23)
COLLAR transactions*	8	4	(21)	(4)	(6)
Total	**104**	**51**	**(1,741)**	**(53)**	**(104)**

Sensitivity to changes in the CPI:

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Long-term loans and deposits	7	4	70	(4)	(7)
Long-term loans from banks	(40)	(20)	(397)	20	40
Debentures	(165)	(82)	(1,649)	82	165
SWAP transactions from index to dollar*	132	66	158	(66)	(132)
Acquisition of index differentials*	11	6	–	(6)	(11)
Total	**(49)**	**(23)**	**(1,825)**	**23**	**49**

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

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to changes in exchange rates:

Shekel/USD

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Cash and cash equivalents	(20)	(11)	219	11	24
Short-term deposits and loans	(10)	(5)	101	5	10
Trade receivables	(9)	(4)	87	4	9
Other receivables and debits	(3)	(2)	31	2	3
Long-term deposits and loans	(29)	(15)	293	15	29
Trade payables	33	17	(332)	(17)	(33)
Other payables and credits	20	10	(204)	(10)	(21)
Liabilities for employee rights	6	3	(62)	(3)	(7)
Long-term loans from banks	37	19	(403)	(21)	(44)
Debentures	196	102	(2,110)	(111)	(231)
SWAP transactions from shekel to dollar*	(169)	(88)	138	98	207
Currency options	(72)	(32)	(10)	22	55
Forward transactions	(9)	(5)	(2)	5	11
Embedded derivative	3	2	–	(2)	(3)
Transaction fixing interest	1	–	(9)	–	(1)
Total	(25)	(9)	(2,262)	(2)	8

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

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to changes in exchange rates: (Cont.)

EURO/USD

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Cash and cash equivalents	(7)	(4)	76	4	8
Short-term deposits and loans	(2)	(1)	17	1	2
Trade receivables	(42)	(21)	424	21	43
Other receivables and debits	(2)	(1)	20	1	2
Inventory	(2)	(1)	17	1	2
Other long-term receivables and debits	(2)	(1)	22	1	2
Credit from banks and others	2	1	(16)	(1)	(2)
Trade and other payables	20	10	(203)	(10)	(21)
Other payables and credits	14	7	(140)	(7)	(14)
Long-term loans from banks	25	13	(254)	(13)	(25)
Currency options	2	1	1	(1)	(2)
Forward transactions	20	10	–	(9)	(17)
Embedded derivatives	2	1	1	(1)	(2)
Total	**28**	**14**	**(35)**	**(13)**	**(24)**

£\USD

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Short-term deposits and loans	(3)	(2)	32	2	3
Trade receivables	(6)	(3)	63	3	6
Credit from banks and others	4	2	(44)	(2)	(4)
Trade and other payables	2	1	(17)	(1)	(2)
Other payables and credits	1	1	(13)	(1)	(1)
Forward transactions	(8)	(4)	–	4	7
Total	**(10)**	**(5)**	**21**	**5**	**9**

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to changes in exchange rates: (Cont.)

Yen\USD

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Trade receivables	(2)	(1)	22	1	2
Currency options	1	1	–	–	(1)
Forward transactions	2	1	–	(1)	(2)
Total	**1**	**1**	**22**	**–**	**(1)**

Rial\USD

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Trade receivables	(1)	(1)	11	1	1
Trade and other payables	1	–	(6)	–	(1)
Total	**–**	**(1)**	**5**	**1**	**–**

Chinese Yuan\USD

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Cash and cash equivalents	(2)	(1)	20	1	2
Trade receivables	(2)	(1)	18	1	2
Trade and other payables	1	1	(11)	(1)	(1)
Other payables and credits	1	–	(7)	–	(1)
Forward transactions	(12)	(6)	4	7	15
Total	**(14)**	**(7)**	**24**	**8**	**17**

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to changes in exchange rates: (Cont.)

Canadian dollar

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Trade receivables	(2)	(1)	22	1	2
Trade and other payables	2	1	(22)	(1)	(2)
Total	–	–	–	–	–

Various currencies

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Forward transactions					
Net exposure					
Bolivian peso / dollar	1	1	(12)	(1)	(1)
Dominican peso / dollar	(1)	–	7	–	1
Peruvian Sual / dollar	(2)	(1)	25	1	3
Chilean peso / dollar	–	–	5	–	1
Total	**(2)**	–	**25**	–	**4**

Sensitivity to other changes

Hedging marine shipping and energy

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Hedging transactions on marine shipping and energy prices	**6**	**3**	**(19)**	**(3)**	**(6)**

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to other changes (Cont.)

Sensitivity to changes in fuel prices

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 50%	Rise of 20%		Fall of 20%	Fall of 50%
Instrument Type					
Transactions hedging fuel prices	52	22	(11)	(22)	(52)
Collar transactions	17	6	(5)	(7)	(20)
Total	**69**	**28**	**(16)**	**(29)**	**(72)**

UPDATE REGARDING DESCRIPTION OF THE CORPORATION'S BUSINESS

Set forth below are significant updates and/or changes in the Corporation's business that occurred from the publication date of the of the Corporation's Periodic Report for 2011 on March 29, 2012 and up to the publication date of this report[5]:

1. **To Section 1 of Paragraph A of the Periodic Report – Activities of the Entity and Description of its Business Developments**

   On May 30, 2012, the Corporation published a shelf prospectus whereby the Corporation will be permitted to issue up to 2,000,000 ordinary shares of NIS 1 par value each; up to NIS 2,000,000,000 par value registered debentures (Series 7) of NIS 1 par value each, which will be offered by means of expansion of the series; up to NIS 2,000,000,000 par value registered debentures (Series 9) of NIS 1 par value each, which will be offered by means of expansion of the series; up to 5 series of debentures (Series 10 up to 14), where each of the series of debentures will be in an aggregate par value of up to NIS 2,000,000,000 par value; up to 5 series of debentures (Series 15 up to 19), where each of the series of debentures will be in an aggregate par value of up to NIS 2,000,000,000 par value; up to 3 series of options (Series B to D) where each series of options for shares will include no more than 2,000,000 registered options, exercisable for ordinary shares of the Corporation; up to 4 series of options (Series E to H) where each series of options for shares will include no more than 20,000,000 registered options, exercisable for debentures of the Corporation; up to 6 series of marketable securities (Series 1 to 6) where each of the series of marketable securities will have a par value of up to NIS 2,000,000,000 par value – all as detailed in the said prospectus, For additional details – see the Corporation's prospectus published on May 30, 2012 (Reference No. 2012-01-139776).

[5] 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 Periodic Report for 2011 and up to the publication date of this report. Unless it is expressly determined otherwise or where the context of the matters requires otherwise, all the terms and expressions used in this report shall have the meaning existing for them in the Corporation's Periodic Report for 2011, which was published on March 29, 2012 (Ref. No. 2012-01-084666) (hereinafter – "the Periodic Report"). Every reference to an Immediate Report includes as part of this document all the information included in the Immediate Report as stated.

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

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

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

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

C. On June 28, 2012, a subsidiary of ICL, Dead Sea Works (hereinafter – "DSW") signed agreements for purposes of execution of a project with respect to construction of a new cogeneration plant in Sdom. The station will have "two-fuel" operation capabilities and will have steam production capacity of 330 tons per hour and electricity production capacity of 250 megawatts, which will supply all the electricity and steam requirements of the production facilities on the Sdom site in the upcoming years. For additional details – see the Corporation's Immediate Report dated July 1, 2012 (Reference No. 2012-01-171351).

D. On July 8, 2012, the Government of Israel signed an agreement with DSW regarding the permanent solution spelling out the substance of the outline of principles with respect to the permanent solution for the rise of the level of the Dead Sea. For additional details – see the Corporation's Immediate Report dated July 9, 2012 (Reference No. 2012-01-180306).

E. On August 16, 2012, the Board of Directors of ICL, after discussing the recommendation of the Search Committee it set up headed by the Chairman of the Board of Directors, Mr. Nir Gilad, decided to appoint Mr. Stefan Borgas as the CEO of ICL in place of Mr. Akiva Mozes, who has given notice of his retirement. Mr. Stefan Borgas will commence his position on September 20, 2012 and on this date Mr. Akiva Mozes will conclude his position. For additional details – see the Corporation's Immediate Report dated August 19, 2012 (Reference No. 2012-01-213594).

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

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

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

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

B. Further to that stated in Section 13, Various Events in the Corporation in the Year of Account and Thereafter in the Report of the Board of Directors as at December 31, 2011, pursuant to a decision of the Corporation's General Meeting on November 3, 2009, and approval by the Corporation's Audit Committee and Board of Directors, regarding provision of a framework of $50 million in the full amount of the reserve, in the period of the report, the Corporation transferred the amount of $50 million to ZIM as a loan convertible into shares of ZIM. In June 2012, the Corporation's Audit Committee and Board of Directors to convert the amount of $25 million (including interest and linkage differences accrued in respect thereof from the actual date of its grant by the Corporation) out of "the reserve amount" (a total of $50 million plus interest and linkage differences accrued in respect thereof from the actual date of its grant by the Corporation) into share capital of ZIM, by means of participation in an issuance of rights for shares of ZIM published on June 11, 2012. For details – see the Corporation's Immediate Reports dated May 29, 2012 and June 21, 2012 (Ref. Nos. 2012-01-139077 and 2012-01-162300, respectively).

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

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

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

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

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

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

B. I.C. Power executed a financial close for receipt of bank financing, in the amount of $534 million, in connection with construction of a hydro project for production of electricity in Peru, Cerro del Aguilla (hereinafter – "CDA"), the planned capacity of which is about 510 megawatts (hereinafter – "the Project"). The cost of the planned investment in the Project is about $900 million, including interest during the construction period. The loan was received from a consortium of 11 foreign banks for a period of 12 years and the average interest is Libor plus about 5%. The first withdrawal is contingent on certain preconditions.

Israel Corporation is a guarantor in an amount estimated at about $65 million and, in addition, Israel Corporation committed that its holdings in Inkia Energy will not fall below the rate of 50.1% (which it currently holds, indirectly, at the rate of 100%). These commitments are valid up to completion of construction of the project, which is expected to take place in 2016. I.C. Power holds CDA (indirectly) at the rate of 74.9%. The partner, which holds the balance of 25.1%, provided a concurrent guarantee based on its proportionate share. For additional details – see the Corporation's Immediate Report dated August 19, 2012 (Ref. No. 2012-01-213516).

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

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

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

6. To Section 12 of Paragraph A of the Periodic Report – Additional investments not rising to the level of an activities area

A. The Corporation notified Tower of its intention to convert all the capital notes issued by Tower to the Corporation into about 14 million shares of Tower. In addition, the Corporation notified Tower that at this stage it does not intend to register the shares for trading or to trade or sell the shares.

B. Qoros, a venture for production of automobiles in China, signed a financing agreement with a consortium of foreign banks, in the aggregate amount of 3 billion yuans (about $470 million) which will serve the venture to finance construction of a plant for production of 150,000 automobiles. For additional details – see the Corporation's Immediate Report dated July 24, 2012 (Ref. No. 2012-01-192615).

7. To Section 14 of Paragraph A of the Periodic Report – Financing

A. On June 24, 2012, the Corporation published a shelf offer pursuant to a shelf prospectus of the Corporation dated May 30, 2012, whereby the Corporation issued to the public debentures (Series 7) and debentures (Series 9) by means of expansion of the existing series. For additional details – see the Corporation's Immediate Reports dated June 19, 2012, June 24, 2012 and June 26, 2012 (Ref. Nos. 2012-01-159948, 2012-01-164826 and 2012-01-166446, respectively).

B. Further to approval granted to the Corporation's Board of Directors, the Corporation made a private issuance of debentures (Series 7) to classified investors included in the First Addendum to the Securities Law, 1968. For additional details – see the Corporation's Immediate Reports dated July 19, 2012 and July 23, 2012 (Ref. Nos. 2012-01-190017 and 2012-01-192087, respectively).

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

On July 9, 2012, the General Meeting of the Corporation's shareholders approved certain provisions of the compromise arrangement in connection with requests for certification of a derivative claim against directors that served the Corporation in the relevant period, interested parties in the Corporation and a subsidiary of the Corporation, ZIM. For additional details – see the Corporation's Immediate Reports dated May 30, 2012, June 6, 2012 and July 9, 2012 (Ref. Nos. 2012-01-141063, 2012-01-148956 and 2012-01-181107, respectively).

9. To Section 21 of Paragraph D of the Periodic Report – Royalties to Senior Officers

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

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

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

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

B. On August 9, 2012, the General Meeting of the Corporation's shareholders approved the Corporation's undertaking in insurance for officers presently serving the Corporation and those that will serve it from time to time, in investee companies, directly or indirectly, by the Corporation (including officers considered controlling shareholders and/or their relatives and/or officers where the Corporation's controlling shareholder may be considered as having a personal interest in their inclusion in the insurance policy, who are presently serving the Corporation and those that will serve it from time to time), any a framework transaction whereby the Corporation's Audit Committee and Board of Directors will be permitted to approve renewal of purchase of the insurance during three years commencing from the current insurance year. For additional details – see the Corporation's Immediate Reports dated July 4, 2012 and August 9, 2012 (Ref. Nos. 2012-01-176643 and 2012-01-206916, respectively).

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

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

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

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

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

2. Members of the Committee

The Committee has 5 members, as follows:

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

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

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

2. Members of the Committee (Cont.)

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

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

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

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

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

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

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

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

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

3. Approval process of the financial statements

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

B. The Finance and Balance Sheet Committee discussed and formulated its recommendations to the Corporation's Board of Directors at its meeting on August 23, 2012. At the Committee's meeting, Ofer Termachi, Gideon Langholtz, Dan Zusskind and Zahavit Cohen participated.

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

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

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

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

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

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

F. After the Board of Directors received the Finance and Balance Sheet Committee's recommendations and a discussion was held of its recommendations, and after the Board of Directors was satisfied that the statements properly reflect the Corporation's financial position and results of operations, the Corporation's Board of Directors decided to approve the Corporation's financial statements as at June 30, 2012, at its meeting held on August 27, 2012. All the members of the Board of Directors participated in the meeting where the Corporation's financial statements as at June 30, 2012 were approved: Amir Elstein (Chairman of the Board), Idan Ofer, Prof. Gideon Langholtz, Yoav Dufelt, Ofer Termachi, Zahavit Cohen, Amnon Lion, Ron Moshkovitz, Zev Nehari, Aviad Kaufman, Eitan Raf, Dan Zusskind and Michael Bricker.

EVENTS OCCURRING IN THE CORPORATION DURING THE PERIOD OF THE REPORT AND THEREAFTER

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

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

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

3. On July 9, 2012, the General Meeting of the Corporation's shareholders approved, by means of a special majority, certain provisions of the Compromise Agreement. The Corporation was informed that the payments were made by the entities related to the controlling shareholders pursuant to the Compromise Agreement. For additional details – see Note 6.C to the financial statements.

4. Regarding a claim against the Corporation and opposing proceedings – see Note 6D to the financial statements.

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

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

   In June 2012, the Corporation decided to convert $25 million out of the reserve amount along with interest accrued in respect thereof into share capital of ZIM by means of an issuance of rights for shares of ZIM, based on a value derived from the shareholders' equity attributable to the Corporation's shareholders included in ZIM's latest financial statements prior to the conversion date. After the conversion, the Corporation holds about 99.7% of ZIM's share capital.

7. On May 30, 2012, the Corporation published a shelf prospectus. For details see "Update of the Corporation's Business", Section 1.

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

9. The Corporation notified Tower of its intention to convert all the capital notes issued by Tower to the Corporation into about 14 million shares of Tower. In addition, the Corporation notified Tower that at this stage it does not intend to register the shares for trading or to trade or sell the shares.

10. For data regarding the Corporation's liabilities – see the Immediate Report regarding the position of the liabilities based on repayment dates published by the Corporation on August 27, 2012 (Ref. No. 2012-01-220275), where the information included in that Report is included herein by reference.

11. Subsequent to the period of the report, ORL and the entities financing construction of the Hydrocracker reached agreements regarding changes in the financial covenants constituting part of the financing agreements, such that for the period from June 30, 2012 up to December 31, 2013, new financial covenants will apply to ORL in place of the financial covenants provided in the financing agreements.

    As at June 30, 2012, Carmel Olefins, a subsidiary of ORL, was not in compliance with a debt coverage ratio (average of 8 quarters) and was also not in compliance with the current ratio it is required to maintain. As at the publication date of these financial statements, the relevant creditors had not demanded to call the debt for repayment.

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

11. (Cont.)

    Subsequent to the period of the report, Carmel Olefins received waiver letters from the financing banks whereby Carmel Olefins will not be required to comply with the debt coverage ratio in connection with the financial statements as at June 30, 2012, September 30, 2012, December 31, 2012 and March 31, 2013. See Note 5D1-2 to the financial statements.

12. Subsequent to the period of the report, in July 2012, Qoros signed a financing agreement with a consortium of foreign banks (hereinafter – “the Financing Agreement”), in the aggregate amount of 3 billion yuans (about $470 million) (hereinafter – “the Principal Amount of the Loan”) which will serve Qoros to finance construction of a plant for production of 150,000 automobiles (construction of the plant is underway, afterwards expansion of the plant is planned). The Financing Agreement is for a period of 10 years. Qoros will provide the Bank various collaterals for securing repayment of the loan. Chery Automobiles Ltd. (hereinafter – “Chery”), which holds (through a subsidiary) 50% of the share capital of Qoros gave a guarantee to the financing banks, in the amount of 1.5 billion yuans (about $235 million). A company from the city wherein the plant will be constructed provided the financing banks a guarantee in connection with the balance of the loan 1.5 billion yuans (about $235 million). The Corporation committed to Chery to pay it half of every amount it will be required to pay with respect to the guarantee it provided in connection with the Financing Agreement, that is, up to 750 million yuans (about $118 million), as well as with respect to accompanying expenses and interest relating to the Principal Amount of the Loan.

13. Subsequent to the period of the report, on August 16, 2012, the Board of Directors of ICL, after discussing the recommendation of the Search Committee it set up headed by the Chairman of the Board of Directors, Mr. Nir Gilad, decided to appoint Mr. Stefan Borgas as the CEO of ICL in place of Mr. Akiva Mozes, who has given notice of his retirement. Mr. Stefan Borgas will commence his position on September 20, 2012 and on this date Mr. Akiva Mozes will conclude his position.

14. Subsequent to the period of the report, in August 2012, I.C. Power executed a financial close for receipt of bank financing, in the amount of $534 million, in connection with construction of a hydro project for production of electricity in Peru, Cerro del Aguilla (hereinafter – “CDA”), the planned capacity of which is about 510 megawatts (hereinafter – “the Project”). The cost of the planned investment in the Project is about $900 million, including interest during the construction period. The loan was received from a consortium of 11 foreign banks for a period of 12 years and the average interest is Libor plus about 5%. The first withdrawal is contingent on certain preconditions.

    Israel Corporation is a guarantor in an amount estimated at about $65 million and, in addition, Israel Corporation committed that its holdings in Inkia Energy will not fall below the rate of 50.1% (which it currently holds, indirectly, at the rate of 100%). These commitments are valid up to completion of construction of the project, which is expected to take place in 2016. I.C. Power holds CDA (indirectly) at the rate of 74.9%. The partner, which holds the balance of 25.1%, provided a concurrent guarantee based on its proportionate share.

15. Subsequent to the date of the report, on August 26, 2012, Midrug notified Carmel Olefins Ltd., a subsidiary of ORL, regarding reduction of the rating of Carmel Olefins Ltd., to a rating of (A3) with a negative rating outlook from (A2).

ADDITIONAL INFORMATION INCLUDED IN THE AUDITORS' REVIEW REPORT

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

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

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

2. That stated in Notes 6B and 6H regarding the dependency of an associated company on receipt of services from infrastructure companies and suppliers of natural gas, that stated in Note 5D1 regarding the financial position of certain investee companies of the associated company and the plans of their managements in this connection, and that stated in Note 3 regarding restatement of the financial statements in order to retroactively reflect therein a change in the accounting policy of the associated company regarding measurement of the inventory of crude oil and its related products from the "moving average" method to the "FIFO" method.

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

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

August 27, 2012

Israel Corporation Ltd.

Condensed Consolidated Interim Financial Statements

As at June 30, 2012

(Unaudited)

In Millions of U.S. Dollars

Israel Corporation Ltd.
Condensed Consolidated Interim Financial Statements
At June 30, 2012
Unaudited

Contents

	Page
Auditors' Review Report	2
Condensed Interim Consolidated Statements of Financial Position	3 – 4
Condensed Interim Consolidated Statements of Income	5
Condensed Interim Consolidated Statements of Comprehensive Income	6
Condensed Interim Consolidated Statements of Changes in Equity	7 – 9
Condensed Interim Consolidated Statements of Cash Flows	10 – 11
Notes to the Condensed Interim Consolidated Financial Statements	12 – 32

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006 Israel

Telephone 972 3 684 8000
Fax 972 3 684 8444
Internet www.kpmg.co.il

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 June 30, 2012 and the condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the six-month and three-month periods ended on that date. The Board of Directors and Management are responsible for preparation and presentation of the financial information for these interim periods in accordance with IAS 34 "Financial Reporting for Interim Periods", and are also responsible for preparation of financial information for these interim periods 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 these interim periods based on our review.

We did not review the condensed financial information for the interim periods of subsidiaries, the assets of which included in the consolidation constitute about 1.9% of the total consolidated assets as at June 30, 2012, and the revenues of which included in the consolidation constitute about 8.0% and about 2.7% of the total consolidated revenues for the six-month and three-month periods ended on that date, respectively. In addition, we did not review the condensed financial information for the interim periods of associated companies, the investment in which totaled about $56 million as at June 30, 2012, and the Group's share in their losses was about $2 million and in their income was about $1 million, for the six-month and three-month periods ended on that date, respectively. The condensed financial information for the interim periods of those companies was reviewed by other auditors whose review reports thereon were furnished to us and our conclusion, insofar as it relates to amounts included in respect of those companies, is based on the review reports of the other auditors.

Scope of the Review

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

Conclusion

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

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

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

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

2. That stated in Notes 6B and 6H regarding the dependency of an associated company on receipt of services from infrastructure companies and suppliers of natural gas, that stated in Note 5D1 regarding the financial position of certain investee companies of the associated company and the plans of their managements in this connection, and that stated in Note 3 regarding restatement of the financial statements in order to retroactively reflect therein a change in the accounting policy of the associated company regarding measurement of the inventory of crude oil and its related products from the "moving average" method to the "FIFO" method.

Somekh Chaikin
Certified Public Accountants (Isr.)

August 27, 2012

Somekh Chaikin, a partnership registered under the Israeli Partnership Ordinance, is the Israeli member firm of KPMG International, a Swiss cooperative.

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Financial Position

	At June 30		At December 31
	2012	**2011**	**2011**
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Current Assets			
Cash and cash equivalents	**1,177**	1,555	**1,241
Securities held for trade	**35**	**31	37
Short-term investments, deposits and loans	**483**	**423	**606
Trade receivables	**1,869**	1,830	1,654
Other receivables and debit balances, including derivative instruments	**405**	495	390
Income taxes receivable	**64**	65	86
Inventories	**1,396**	1,289	1,454
Total current assets	**5,429**	5,688	5,468
Non-Current Assets			
Investments in associated companies	**1,292**	*(*)1,330	(*)1,329
Investments in other companies	**7**	13	8
Deposits, loans and other debit balances	**361**	283	313
Derivative instruments	**267**	469	319
Excess of assets over liabilities in respect of defined benefit plan	**64**	84	65
Deferred taxes, net	**107**	121	107
Non-current inventory	**59**	53	49
Property, plant and equipment	**6,770**	6,116	6,569
Intangible assets	**1,172**	1,192	1,130
Total non-current assets	**10,099**	9,661	9,889
Total assets	**15,528**	15,349	15,357

* Insignificant adjustment – see Note 2D.
(*) Retroactive application of accounting policy – see Note 3.
** Reclassified.

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

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Financial Position

	At June 30		At December 31
	2012	2011	2011
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Current Liabilities			
Credit from banks and others	**1,390**	1,288	2,923
Trade payables	**1,088**	1,170	1,107
Provisions	**79**	101	77
Other payables and credit balances, including derivative instruments	**831**	739	889
Income taxes payable	**34**	90	58
Total current liabilities	**3,422**	3,388	5,054
Non-Current Liabilities			
Loans from banks and others	**4,395**	4,087	2,656
Debentures	**2,409**	2,719	2,381
Derivative instruments	**88**	118	88
Provisions	**79**	80	80
Deferred taxes, net	**311**	172	269
Employee benefits	**662**	682	662
Total non-current liabilities	**7,944**	7,858	6,136
Total liabilities	**11,366**	11,246	11,190
Equity			
Share capital and premium	**285**	285	285
Capital reserves	**84**	147	98
Capital reserve in respect of transactions with controlling shareholder	**157**	113	137
Retained earnings	**1,816**	*(*)1,887	(*)1,946
Total equity attributable to the owners of the Corporation	**2,342**	2,432	2,466
Holders of non-controlling interests	**1,820**	1,671	1,701
Total equity	**4,162**	4,103	4,167
Total liabilities and equity	**15,528**	15,349	15,357

* Insignificant adjustment – see Note 2D.
(*) Retroactive application of accounting policy – see Note 3.

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

Approval date of the financial statements: August 27, 2012

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

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Income

	For the				
	Six Months Ended June 30		Three Months Ended June 30		Year Ended December 31
	2012	2011	2012	2011	2011
	(Unaudited)		(Unaudited)		(Audited)
	In Millions of U.S. Dollars				
Sales	**5,825**	5,723	**3,209**	3,144	11,608
Cost of sales	**4,356**	4,149	**2,296**	2,261	8,477
Gross profit	**1,469**	1,574	**913**	883	3,131
Research and development expenses	**41**	37	**20**	20	77
Selling, transportation and marketing expenses	**403**	427	**227**	239	873
Administrative and general expenses	**239**	245	**117**	130	506
Other expenses	**6**	24	**1**	16	30
Other income	**(25)**	(31)	**(12)**	(19)	(97)
Operating income	**805**	872	**560**	497	1,742
Financing expenses	**261**	353	**108**	155	505
Financing income	**(62)**	(101)	**(8)**	(88)	(181)
Financing expenses, net	**199**	252	**100**	67	324
Share in income (losses) of associated companies, net of tax	**(89)**	*(*)(21)	**(62)**	*(*)20	(*)(91)
Income before taxes on income	**517**	599	**398**	450	1,327
Taxes on income	**176**	193	**114**	125	423
Income for the period	**341**	406	**284**	325	904
Attributable to:					
The owners of the Corporation	**1**	*(*)55	**83**	*(*)115	(*)155
Holders of non-controlling interests	**340**	351	**201**	210	749
Income for the period	**341**	406	**284**	325	904
Income per share attributable to the owners of the Corporation:					
Basic income per share (in dollars)	**0.12**	*(*)6.64	**10.76**	*(*)13.52	(*)20.05
Diluted income per share (in dollars)	**0.03**	*(*)6.20	**10.76**	*(*)13.24	(*)19.34

* Insignificant adjustment – see Note 2D.
(*) Retroactive application of accounting policy – see Note 3.

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				
	Six Months Ended June 30		Three Months Ended June 30		Year Ended December 31
	2012	2011	2012	2011	2011
	(Unaudited)		(Unaudited)		(Audited)
	In Millions of U.S. Dollars				
Income for the period	**341**	*(*)406	**284**	*(*)325	(*)904
Components of other comprehensive income (loss)					
Foreign currency translation differences in respect of foreign activities	**(27)**	71	**(64)**	30	(39)
Actuarial gains (losses) from defined benefit plans, net	**(16)**	3	**(24)**	(15)	(41)
Group's share in other comprehensive loss of associated companies	**(2)**	(3)	**(2)**	(4)	(7)
Effective portion of the change in fair value of cash flow hedges	**(1)**	(7)	**4**	(6)	–
Net change in fair value of financial assets available for sale	–	(8)	–	(4)	(8)
Net change in fair value of cash flow hedges transferred to the statement of income	**1**	1	–	–	3
Net change in fair value of financial assets available for sale transferred to the statement of income	–	6	–	–	6
Taxes in respect of components of other comprehensive income (loss)	**3**	2	**5**	5	10
Other comprehensive income (loss) for the period, net of tax	**(42)**	65	**(81)**	6	(76)
Comprehensive income for the period	**299**	471	**203**	331	828
Attributable to:					
The owners of the Corporation	**(23)**	*(*)91	**38**	*(*)116	(*)115
Holders of non-controlling interests	**322**	380	**165**	215	713
Comprehensive income for the period	**299**	471	**203**	331	828

* Insignificant adjustment – see Note 2D.
(*) Retroactive application of accounting policy – see Note 3.

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 capital
	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 six months ended June 30, 2012								
Balance at January 1, 2012	**285**	**46**	**52**	**137**	(*)**1,946**	**2,466**	**1,701**	**4,167**
Share-based payments in a subsidiary	–	–	–	–	–	–	**5**	**5**
Exercise of options granted to employees of subsidiary	–	–	–	–	**2**	**2**	**2**	**4**
Share-based payments in the Corporation	–	–	**3**	–	–	**3**	–	**3**
Dividend to holders of non-controlling interests in a subsidiary	–	–	–	–	–	–	**(227)**	**(227)**
Dividend to equity holders	–	–	–	–	**(120)**	**(120)**	–	**(120)**
Acquisition of shares form holders of non-controlling interests in a subsidiary	–	–	–	–	**(6)**	**(6)**	**(2)**	**(8)**
Issuance of shares of a subsidiary to holders of non-controlling interests	–	–	–	–	–	–	**19**	**19**
Transactions with controlling shareholder	–	–	–	**20**	–	**20**	–	**20**
Income for the period	–	–	–	–	**1**	**1**	**340**	**341**
Other comprehensive loss for the period, net of tax	–	**(16)**	**(1)**	–	**(7)**	**(24)**	**(18)**	**(42)**
Balance at June 30, 2012	**285**	**30**	**54**	**157**	**1,816**	**2,342**	**1,820**	**4,162**
For the six months ended June 30, 2011								
Balance at January 1, 2011	282	65	42	90	(*)1,901	2,380	1,446	3,826
Share-based payments in a subsidiary	–	–	–	–	–	–	7	7
Share-based payments in the Corporation	3	–	5	–	–	8	–	8
Dividend to holders of non-controlling interests in a subsidiary	–	–	–	–	–	–	(177)	(177)
Dividend to equity holders	–	–	–	–	(70)	(70)	–	(70)
Non-controlling interests in respect of business combination	–	–	–	–	–	–	9	9
Issuance of shares of a subsidiary to holders of non-controlling interests	–	–	–	–	–	–	3	3
Transactions with holders of not-controlling interests	–	–	–	–	–	–	3	3
Transactions with controlling shareholder	–	–	–	23	–	23	–	23
Income for the period	–	–	–	–	*(*)55	55	351	406
Other comprehensive income for the period, net of tax	–	39	(4)	–	1	36	29	65
Balance at June 30, 2011	285	104	43	113	1,887	2,432	1,671	4,103

* Insignificant adjustment – see Note 2D.
(*) Retroactive application of accounting policy – see Note 3.

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 capital
	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 June 30, 2012								
Balance at April 1, 2012	**285**	**66**	**52**	**147**	(*)**1,743**	**2,293**	**1,741**	**4,034**
Share-based payments in a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**3**	**3**
Share-based payments in the Corporation	**–**	**–**	**1**	**–**	**–**	**1**	**–**	**1**
Dividend to holders of non-controlling interests in a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**(99)**	**(99)**
Issuance of shares of a subsidiary to holders of non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**10**	**10**
Transactions with controlling shareholder	**–**	**–**	**–**	**10**	**–**	**10**	**–**	**10**
Income for the period	**–**	**–**	**–**	**–**	**83**	**83**	**201**	**284**
Other comprehensive loss for the period, net of tax	**–**	**(36)**	**1**	**–**	**(10)**	**(45)**	**(36)**	**(81)**
Balance at June 30, 2012	**285**	**30**	**54**	**157**	**1,816**	**2,342**	**1,820**	**4,162**
For the three months ended June 30, 2011								
Balance at April 1, 2011	285	89	47	102	*(*)1,778	2,301	1,535	3,836
Share-based payments in a subsidiary	–	–	–	–	–	–	3	3
Share-based payments in the Corporation	–	–	4	–	–	4	–	4
Dividend to holders of non-controlling interests in a subsidiary	–	–	–	–	–	–	(94)	(94)
Non-controlling interests in respect of business combination	–	–	–	–	–	–	9	9
Issuance of shares of a subsidiary to holders of non-controlling interests	–	–	–	–	–	–	3	3
Transactions with controlling shareholder	–	–	–	11	–	11	–	11
Income for the period	–	–	–	–	*(*)115	115	210	325
Other comprehensive income (loss) for the period, net of tax	–	15	(8)	–	(6)	1	5	6
Balance at June 30, 2011	285	104	43	113	1,887	2,432	1,671	4,103

* Insignificant adjustment – see Note 2D.
(*) Retroactive application of accounting policy – see Note 3.

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		
	(Audited)							
	$ millions							
Balance at January 1, 2011	282	65	42	90	(*)1,901	2,380	1,446	3,826
Share-based payments in a subsidiary	–	–	–	–	–	–	14	14
Share-based payments in the Corporation	3	–	9	–	–	12	–	12
Dividend to holders of non-controlling interests in a subsidiary	–	–	–	–	–	–	(478)	(478)
Dividend to equity holders	–	–	–	–	(70)	(70)	–	(70)
Non-controlling interests in respect of business combination	–	–	–	–	–	–	15	15
Acquisition of shares from holders of non-controlling interests in a subsidiary	–	–	–	–	(18)	(18)	(14)	(32)
Issuance of shares of a subsidiary to holders of non-controlling interests	–	–	–	–	–	–	3	3
Transactions with holders of non-controlling interests	–	–	–	–	–	–	5	5
Change in options of proportionately consolidated company	–	–	–	–	–	–	(3)	(3)
Transactions with controlling shareholder	–	–	–	47	–	47	–	47
Income for the year	–	–	–	–	(*)155	155	749	904
Comprehensive loss for the year , net of tax	–	(19)	1	–	(22)	(40)	(36)	(76)
Balance at December 31, 2011	285	46	52	137	1,946	2,466	1,701	4,167

(*) Retroactive application of accounting policy – see Note 3.

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				
	Six Months Ended June 30		Three Months Ended June 30		Year Ended December 31
	2012	2011	2012	2011	2011
	(Unaudited)		(Unaudited)		(Audited)
	In Millions of U.S. Dollars				
Cash flows from operating activities					
Income for the period	**341**	*(*)406	**284**	*(*)325	(*)904
Adjustments:					
Depreciation and amortization	**255**	237	**123**	125	501
Decline in value of assets	**5**	8	**1**	8	11
Financing expenses, net	**157**	202	**55**	42	241
Share in losses (income) of associated companies, net	**89**	*(*)21	**62**	*(*) (20)	(*)91
Capital gains, net	**(13)**	(25)	**(4)**	(15)	(64)
Share-based payment transactions	**8**	15	**4**	8	24
Gain in respect of acquisition at bargain price (negative goodwill)	**–**	–	**–**	–	(24)
Loss (gain) on investment in securities held for trade and available for sale	**1**	3	**–**	(3)	8
Taxes on income	**176**	193	**114**	125	423
	1,019	1,060	**639**	595	2,115
Change in inventories	**35**	(29)	**61**	(32)	(214)
Change in trade and other receivables	**(259)**	(433)	**(185)**	(239)	(290)
Change in trade and other payables	**(17)**	181	**(13)**	60	314
Change in uncompleted voyages, net	**1**	(76)	**12**	(22)	(58)
Change in provisions and employee benefits	**(6)**	18	**(24)**	10	(38)
	773	721	**490**	372	1,829
Income taxes paid, net	**(141)**	(265)	**(79)**	(64)	(453)
Dividend received	**10**	14	**4**	7	39
Net cash provided by operating activities	**642**	470	**415**	315	1,415
Cash flows from investing activities					
Investment in long-term deposits	**(1)**	–	**–**	–	(35)
Proceeds from realization of long-term deposits	**2**	2	**1**	2	4
Proceeds from sale of property, plant and equipment	**13**	8	**9**	4	49
Short-term deposits and loans, net	**116**	216	**(95)**	65	**48
Business combinations less cash acquired	**(19)**	(452)	**(19)**	(189)	(470)
Proceeds from sale of subsidiary less cash acquired	**1**	–	**–**	–	–
Investments in associated companies	**(71)**	–	**(25)**	–	(103)
Proceeds from sale of associated companies	**–**	–	**–**	–	10
Sale of securities held for trade and available for sale	**–**	13	**–**	13	14
Acquisition of property, plant and equipment	**(478)**	(381)	**(268)**	(224)	(1,026)
Investment grants received	**–**	–	**–**	–	1
Acquisition of intangible assets	**(69)**	(10)	**(34)**	(5)	(32)
Interest received	**20**	17	**6**	6	40
Collection of long-term loans	**–**	34	**–**	34	34
Receipts (payments) from derivative transactions used for hedging, net	**2**	–	**5**	–	2
Receipts (payments) from derivative transactions, net	**(1)**	(6)	**(12)**	2	21
Net cash used in investing activities	**(485)**	(559)	**(432)**	(292)	(1,443)

* Insignificant adjustment – see Note 2D.
(*) Retroactive application of accounting policy – see Note 3.
** Reclassified.

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

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Cash Flows

	For the				
	Six Months Ended June 30		Three Months Ended June 30		Year Ended December 31
	2012	2011	2012	2011	2011
	(Unaudited)		(Unaudited)		(Audited)
	In Millions of U.S. Dollars				
Cash flows from financing activities					
Dividend paid to holders of non-controlling interests	**(242)**	(256)	**(223)**	(173)	(541)
Acquisition of rights non-controlling interests in subsidiary	**(8)**	–	**–**	–	–
Proceeds from issuance of shares to holders of non-controlling interests in subsidiaries	**19**	17	**10**	13	18
Receipt of long-term loans and issuance of debentures	**860**	790	**497**	491	1,930
Dividend paid to the owners of the Corporation	**(120)**	(70)	**(120)**	(70)	(70)
Repayment of long-term loans and debentures	**(432)**	(407)	**(94)**	(180)	(1,557)
Short-term credit from banks and others, net	**(134)**	249	**130**	143	332
Payments from derivative transactions used for hedging, net	**–**	1	**–**	2	–
Proceeds from exercise of options granted to employees of a subsidiary	**4**	–	**–**	–	–
Interest paid	**(164)**	(157)	**(64)**	(60)	(304)
Net cash provided by (used in) financing activities	**(217)**	167	**136**	166	(192)
Increase (decrease) in cash and cash equivalents	**(60)**	78	**119**	189	(220)
Cash and cash equivalents at beginning of the period	**1,240**	1,476	**1,064**	1,364	1,476
Effect of exchange rate fluctuations on balances of cash and cash equivalents	**(4)**	(1)	**(7)**	–	(16)
Cash and cash equivalents at the end of the period	**1,176**	1,553	**1,176**	1,553	**1,240

* Insignificant adjustment – see Note 2D.
(*) Retroactive application of accounting policy – see Note 3.
** Reclassified.

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 June 30, 2012

Note 1 – The Reporting Entity

Israel Corporation Ltd. (hereinafter – "the Corporation") is an Israeli-resident public 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, Israel. The condensed consolidated interim financial statements as at June 30, 2012 include those of the Corporation, its subsidiaries and jointly-held companies (hereinafter – "the Group") along with the Group's rights in associated companies.

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

Note 2 – Basis of Preparation of the Financial Statements

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

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

The condensed, consolidated, interim financial statements were approved for publication by the Corporation's Board of Directors on August 27, 2012.

B. Functional currency and presentation currency

The dollar is the currency representing the main economic environment in which the Corporation operates and, accordingly, the dollar constitutes the Corporation's functional currency. The dollar also serves as the presentation currency in these financial statements. Currencies other than the dollar constitute foreign currency.

C. Use of estimates and judgment

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

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

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

C. Use of estimates and judgment (Cont.)

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

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

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

The impact of the change in estimate on the annual anticipated depreciation expenses to be recorded to the cost of sales is about $9 million. As a result of lengthening the useful lives of the property, plant and equipment, ICL recognized deferred taxes in the amount of about $5 million.in the period of the report.

D. Non-significant adjustment of the comparative data

As part of the headquarters' work performed by Oil Refineries Ltd. (hereinafter – "ORL") in 2011, with respect to inventory levels, it was found that in 2002, at a time when ORL was still a government company, an agreement was first signed between it and the State of Israel relating to holding of emergency inventory of diesel fuel for transportation (hereinafter – "the Emergency Inventory"). The agreement was revised in 2004 and 2005 and was extended or renewed since then from time to time, after undergoing certain revisions, and as at the date of the report it is effective up to the end of 2012 (hereinafter – "the Agreement"). The Agreement was not reflected in ORL's financial statements, including the statements included in the ORL's privatization prospectus from February 2007.

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

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

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

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

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

The impact of the said correction on the financial statements is an increase in the income/loss attributable to the Corporation's owners for the six-month period and the three-month period ended June 30, 2011 by a loss of about $4 million and by income of about $1 million, respectively.

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

Note 3 – Significant Accounting Policies

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

Changes in accounting policy

Commencing from January 1, 2012, an associated company, ORL, applies a new accounting policy in connection with measurement of the inventory of crude oil and its related products, such that the inventory will be measured using the "FIFO" method in place of the "moving average" method, since in the opinion of ORL's Management, measurement, as stated, will be reflected in more reliable and relevant information. This is true since measurement of the inventory of crude oil and its related products using the "FIFO" method brings the balance of the inventory in the statement of financial position close to its fair value, and thus permits, among other things, more effective economic hedging of this inventory. In addition, measurement of the inventory using the "FIFO" method provides the users of the financial statements better ability to compare ORL's performance with the performance of similar companies in the sector in and outside of Israel. The change in the accounting policy was implemented by means of a retroactive application.

The impact of the said change on the Corporation's financial statements is an increase in the income attributable to the Corporation's owners for the six-month and three-month periods ended June 30, 2011 by about $9 million and about $11 million, respectively; an increase in the balance of the investments in associated companies as at June 30, 2011 and December 31, 2011, in the amounts of about $8 million and about $1 million, respectively; an increase in the balance of the retained earnings as at June 30, 2011 and December 31, 2011, in the amounts of about $5 million and about $1 million, respectively; and a decrease in the balance of the retained earnings as at January 1, 2011 in the amount of about $3 million.

B. Indices and Exchange Rates

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

	Consumer Price Index (known index)	Dollar–NIS exchange rate	Dollar–Euro exchange rate
	%	%	%
Rates of change for the six months ended:			
June 30, 2012	**1.3**	**2.7**	**2.8**
June 30, 2011	2.2	(3.8)	(7.8)
Rates of change for the three months ended:			
June 30, 2012	**1.3**	**5.6**	**6.1**
June 30, 2011	1.3	(1.9)	(1.8)
For the year ended December 31, 2011	2.5	7.7	3.3

Note 4 – Information on Activity Segments

A. General

The Group is composed of the following activity segments:

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

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

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

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

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

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

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

Israel Corporation Ltd.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
At June 30, 2012

Note 4 – Information on Activity Segments (Cont.)

B. Information relating to Business Segments

	ICL	ORL	ZIM	I.C. Power	Other	**Adjustments** [(1)]	Total
	(Unaudited)						
	$ millions						
For the six months ended June 30, 2012:							
Sales to external customers	**3,517**	**4,900**	**1,906**	**273**	**129**	**(4,900)**	**5,825**
Inter-segment sales	**–**	**–**	**10**	**–**	**–**	**–**	**10**
	3,517	**4,900**	**1,916**	**273**	**129**	**(4,900)**	**5,835**
Elimination of inter-segment sales	**–**	**–**	**(10)**	**–**	**–**	**–**	**(10)**
Total sales	**3,517**	**4,900**	**1,906**	**273**	**129**	**(4,900)**	**5,825**
EBITDA for the period	**1,034**	**7**	**(23)**	**63**	**(8)**	**(7)**	**1,066**
Depreciation and amortization	**138**	**72**	**93**	**25**	**4**	**(72)**	**260**
Financing income	**(23)**	**(12)**	**(2)**	**(2)**	**(42)**	**19**	**(62)**
Financing expenses	**69**	**82**	**87**	**21**	**91**	**(89)**	**261**
Share in losses (income) of associated companies	**(5)**	**3**	**(4)**	**(16)**	**114**	**(3)**	**89**
Special or non-recurring income	**1**	**–**	**–**	**–**	**–**	**–**	**1**
	180	**145**	**174**	**28**	**167**	**(145)**	**549**
Income (loss) before taxes	**854**	**(138)**	**(197)**	**35**	**(175)**	**138**	**517**
Taxes on income	**154**	**(29)**	**9**	**7**	**6**	**29**	**176**
Income (loss) for the year	**700**	**(109)**	**(206)**	**28**	**(181)**	**109**	**341**
For the six months ended June 30, 2011:							
Sales to external customers	3,456	4,711	1,897	277	93	(4,711)	5,723
Inter-segment sales	1	–	15	–	–	–	16
	3,457	4,711	1,912	277	93	(4,711)	5,739
Elimination of inter-segment sales	(1)	–	(15)	–	–	–	(16)
Total sales	3,456	4,711	1,897	277	93	(4,711)	5,723
EBITDA for the period	1,026	*(*)172	13	72	8	(172)	1,119
Depreciation and amortization	123	66	99	21	4	(66)	247
Financing income	(12)	(35)	(4)	(3)	(91)	44	(101)
Financing expenses	56	110	98	34	173	(118)	353
Share in losses (income) of associated companies	(9)	4	(15)	(16)	*(*)61	(4)	21
	158	145	178	36	147	(144)	520
Income (loss) before taxes	868	27	(165)	36	(139)	(28)	599
Taxes on income	157	*(*)14	7	11	18	(14)	193
Income (loss) for the year	711	13	(172)	25	(157)	(14)	406

* Insignificant adjustment – see Note 2D.
(*) Retroactive application of accounting policy – see Note 3.
(1) Most of the adjustments stem from the ORL segment.

Note 4 – Information on Activity Segments (Cont.)

B. Information relating to Business Segments

	ICL	ORL	ZIM	I.C. Power	Other	Adjustments (1)	Total
	(Unaudited)						
	$ millions						
For the three months ended June 30, 2012:							
Sales to external customers	**1,965**	**2,452**	**1,045**	**141**	**58**	**(2,452)**	**3,209**
Inter-segment sales	**–**	**–**	**6**	**–**	**–**	**–**	**6**
	1,965	**2,452**	**1,051**	**141**	**58**	**(2,452)**	**3,215**
Elimination of inter-segment sales	**–**	**–**	**(6)**	**–**	**–**	**–**	**(6)**
Total sales	**1,965**	**2,452**	**1,045**	**141**	**58**	**(2,452)**	**3,209**
EBITDA for the period	**611**	**(73)**	**46**	**34**	**(6)**	**72**	**684**
Depreciation and amortization	**65**	**34**	**45**	**12**	**2**	**(34)**	**124**
Financing income	**(9)**	**(10)**	**–**	**–**	**(3)**	**14**	**(8)**
Financing expenses	**38**	**39**	**44**	**11**	**18**	**(42)**	**108**
Share in losses (income) of associated companies	**(3)**	**2**	**(3)**	**(7)**	**75**	**(2)**	**62**
	91	**65**	**86**	**16**	**92**	**(64)**	**286**
Income (loss) before taxes	**520**	**(138)**	**(40)**	**18**	**(98)**	**136**	**398**
Taxes on income	**110**	**(35)**	**4**	**4**	**(4)**	**35**	**114**
Income (loss) for the year	**410**	**(103)**	**(44)**	**14**	**(94)**	**101**	**284**
For the three months ended June 30, 2011:							
Sales to external customers	1,928	2,653	992	147	77	(2,653)	3,144
Inter-segment sales	1	–	8	–	–	–	9
	1,929	2,653	1,000	147	77	(2,653)	3,153
Elimination of inter-segment sales	(1)	–	(8)	–	–	–	(9)
Total sales	1,928	2,653	992	147	77	(2,653)	3,144
EBITDA for the period	611	*(*)128	(25)	40	8	(130)	632
Depreciation and amortization	68	34	54	9	4	(34)	135
Financing income	(7)	(27)	(11)	(2)	(52)	11	(88)
Financing expenses	28	51	–	23	87	(34)	155
Share in losses (income) of associated companies	(5)	4	(8)	(10)	*(*)4	(5)	(20)
	84	62	35	20	43	(62)	182
Income (loss) before taxes	527	66	(60)	20	(35)	(68)	450
Taxes on income	96	*(*)17	5	6	7	(6)	125
Income (loss) for the year	431	49	(65)	14	(42)	(62)	325

* Insignificant adjustment – see Note 2D.
(*) Retroactive application of accounting policy – see Note 3.
(1) Most of the adjustments stem from the ORL segment.

Israel Corporation Ltd.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
At June 30, 2012

Note 4 – Information on Activity Segments (Cont.)

B. Information relating to Business Segments (Cont.)

	ICL	ORL	ZIM	I.C. Power	Other	Adjustments [(1)]	Total
	Audited						
	$ millions						
2011:							
Sales to external customers	7,067	9,562	3,758	526	257	(9,562)	11,608
Inter-segment sales	1	9	26	–	–	(9)	27
	7,068	9,571	3,784	526	257	(9,571)	11,635
Elimination of inter-segment sales	(1)	(9)	(26)	–	–	9	(27)
Total sales	7,067	9,562	3,758	526	257	(9,562)	11,608
EBITDA for the year	2,193	(*)140	(85)	120	(1)	(137)	2,230
Depreciation and amortization	267	135	193	41	8	(132)	512
Financing income	(42)	(35)	(57)	(6)	(135)	94	(181)
Financing expenses	104	142	165	49	246	(201)	505
Share in losses (income) of associated companies	(8)	22	(15)	(25)	(*)139	(22)	91
Extraordinary or non-recurring income	–	–	–	(24)	–	–	(24)
	321	264	286	35	258	(261)	903
Income (loss) before taxes	1,872	(124)	(371)	85	(259)	124	1,327
Taxes on income	349	(*)(24)	19	18	32	29	423
Income (loss) for the year	1,523	(100)	(390)	67	(291)	95	904
Other significant non-cash items:							
Decline in value of fixed and intangible assets	–	–	11	–	–	–	11
Segment assets	7,254	4,496	3,504	1,884	1,300	(4,410)	14,028
Investments in associated companies	29	10	19	283	4,876	(3,889)	1,328
							15,356
Sector liabilities	4,178	3,506	3,153	1,569	3,160	(4,376)	11,190
Capital expenses	909	359	23	636	139	(359)	1,707

(*) Retroactive application of accounting policy – see Note 3.
(1) Most of the adjustments stem from the ORL segment.

Note 5 – Additional Information

A. The Corporation

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

2. In period of the report, the capital of Tower Semiconductors Ltd. (hereinafter – "Tower") increased by about $3 million (in accordance with IFRS), deriving mainly from conversion of debentures and options for Tower shares. As a result, the Corporation's share in Tower declined (on the assumption that the capital notes will converted into shares) from about 30.7% to about 30.5% and the Corporation realized a capital gain of about $5 million.

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

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

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

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

7. Further to Note 22C3(a)(vii) to the Annual Financial Statements, during April–May, the Corporation transferred $50 million to ZIM, as a loan convertible into ZIM shares, in accordance with the decision of the Corporation's General Meeting on November 3, 2009 and with approval of the Corporation's Audit Committee regarding provision of a framework of $50 million as the full amount of the reserve. The loan bears interest at the rate of Libor+2%.

   In June 2012, the Corporation decided to convert $25 million out of the reserve amount along with interest accrued in respect thereof into share capital of ZIM by means of an issuance of rights for shares of ZIM, based on a value derived from the shareholders' equity attributable to the Corporation's shareholders included in ZIM's latest financial statements prior to the conversion date. After the conversion, the Corporation holds about 99.7% of ZIM's share capital.

8. The Corporation notified Tower of its intention to convert all the capital notes issued by Tower to the Corporation into about 14 million shares of Tower. In addition, the Corporation notified Tower that at this stage it does not intend to register the shares for trading or to trade or sell the shares.

Note 5 – Additional Information (Cont.)

A. The Corporation (Cont.)

9. On June 26, 2012, the Corporation made a short-term loan to ICL, in the amount of about $50 million, bearing annual interest at the rate of 1.22%. The terms of the loan are comparable to market terms. The repayment date of the loan is September 24, 2012.

10. Subsequent to the period of the report, in July 2012, Qoros signed a financing agreement with a consortium of foreign banks (hereinafter – "the Financing Agreement"), in the aggregate amount of 3 billion yuans (about $470 million) (hereinafter – "the Principal Amount of the Loan") which will serve Qoros to finance construction of a plant for production of 150,000 automobiles (construction of the plant is underway, afterwards expansion of the plant is planned). The Financing Agreement is for a period of 10 years. Qoros will provide the Bank various collaterals for securing repayment of the loan. Chery Automobile Co. Ltd. (hereinafter – "Chery"), which holds (through a subsidiary) 50% of the share capital of Qoros gave a guarantee to the financing banks, in the amount of 1.5 billion yuans (about $235 million). A company from the city wherein the plant will be constructed provided the financing banks a guarantee in connection with the balance of the loan 1.5 billion yuans (about $235 million). The Corporation committed to Chery to pay it half of every amount it will be required to pay with respect to the guarantee it provided in connection with the Financing Agreement, that is, up to 750 million yuans (about $118 million), as well as with respect to accompanying expenses and interest relating to the Principal Amount of the Loan.

11. Subsequent to the period of the report, in August 2012, I.C. Power executed a financial close for receipt of bank financing, in the amount of $534 million, in connection with construction of a hydro project for production of electricity in Peru, Cerro del Aguilla (hereinafter – "CDA"), the planned capacity of which is about 510 megawatts (hereinafter – "the Project"). The cost of the planned investment in the Project is about $900 million, including interest during the construction period.

    The loan was received from a consortium of 11 foreign banks for a period of 12 years and the average interest is Libor plus about 5%. The first withdrawal is contingent on certain preconditions.

    Israel Corporation is a guarantor in an amount estimated at about $65 million and, in addition, Israel Corporation committed that its holdings in Inkia Energy will not fall below the rate of 50.1% (which it currently holds, indirectly, at the rate of 100%). These commitments are valid up to completion of construction of the project, which is expected to take place in 2016.

    I.C. Power holds CDA (indirectly) at the rate of 74.9%. The partner, which holds the balance of 25.1%, provided a concurrent guarantee based on its proportionate share.

12. The Group attaches to these financial statements, the financial statements of the following associated companies:
    (a) Better Place Inc.
    (b) Qoros Automotive Ltd. – the reporting currency of Qoros is the RMB. As at June 30, 2012, the exchange rate of the RMB vis-à-vis the dollar was 6.35 (as at December 31, 2011 – 6.31, a decline of 0.2%).

Note 5 – Additional Information (Cont.)

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

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

2. On June 28, 2012, ICL's subsidiary, DSW, signed agreements for purposes of execution of a project with respect to construction of a new cogeneration plant in Sdom. The station will have "two-fuel" operation capabilities and will have steam production capacity of 330 tons per hour and electricity production capacity of 250 megawatts, which will supply all the electricity and steam requirements of the production facilities on the Sdom site in the upcoming years. The project is expected to commence in the third quarter of 2012 and to be completed in the middle of 2015. The total cost of the project is estimated at about $320 million. The construction agreements are linked to the rate of exchange of the euro.

   Subsequent to the date of the report, the Corporation made an investment in a derivative, in order to hedge exposure to changes in the project's cash flows, stemming from changes in the dollar/euro currency exchange rates.

   The above-mentioned hedge transaction meets the conditions of an accounting hedge. Changes in the fair value of the derivative serving to hedge cash flows, in respect of the effective hedge part, will be recorded through other comprehensive income directly to a capital reserve. In respect of the ineffective hedge part, the changes will be recorded on the statement of income.

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

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

2. As at June 30, 2012, ZIM is in compliance with the updated financial covenants described in Note 22E3(d) to the Annual Financial Statements. The minimum liquidity balance as at June 30, 2012, is $158 million (the minimum quarterly required liquidity balance is $100 million), and the quarterly EBIDTA is about $26 million (the quarterly EBIDTA required for the second quarter of 2012 is positive EBIDTA.)

3. On May 6, 2012, Maalot notified ZIM with respect to a reduction of its rating to ilB (from ilBB–), with a negative rating outlook.

Note 5 – Additional Information (Cont.)

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

1. In 2011, ORL recorded operating income of about $14 million and an after-tax loss of about $77 million. In the first half of 2012, ORL recorded an operating loss of about $65 million and an after-tax loss of about $105 million. As at June 30, 2012, the balance of ORL's working capital is negative, in the amount of about $290 million.

   As at June 30, 2012, Carmel Olefins, a subsidiary of ORL, was not in compliance with a debt coverage ratio (average of 8 quarters) and after reclassification of loans from long-term to short-term, Carmel Olefins was also not in compliance with the current ratio. As at the publication date of these financial statements, the relevant creditors had not demanded to call the debt for repayment.

   Subsequent to the period of the report, Carmel Olefins received waiver letters from the financing banks whereby Carmel Olefins will not be required to comply with the debt coverage ratio in connection with the financial statements as at June 30, 2012, September 30, 2012, December 31, 2012 and March 31, 2013.

   In order to improve their profitability and liquidity position, the companies in the ORL Group are taking the following steps:

   a) Completion of the Hydrocracker project.

   b) Making a structural reorganization and and realizing the potential synergy between the ORL Group companies.

   c) Using of natural gas as combustion material instead of fuel oil – for details regarding the availability of natural gas – see Note 6H.

   d) Entering into a transaction for available inventory with a foreign company and agreement with crude oil suppliers for transactions with better credit terms – for details – see Note 5D4.

   After execution of the steps enumerated above, the cash flows of the ORL Group in the first half of 2012 from operating activities is positive, in the amount of about $518 million.

   In the estimation of the managements of ORL and Carmel Olefins, based on the cash flows, along with execution of the steps detailed above, ORL and Carmel Olefins have sufficient resources for meeting their liabilities on time and amount, and for financing their operations in the foreseeable future.

Note 5 – Additional Information (Cont.)

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

2. As at June 30, 2012, ORL was in compliance with the required financial covenants in connection with long-term loans in the construction period of the project for establishment of a facility for production of clean fuels (hereinafter – "the Hydrocracker"). Since as at March 31, 2012, ORL was not in compliance with the required minimum adjusted EBITDA ratio covenant, ORL requested and received waiver letters from the financing banks whereby ORL would not be required to comply with the required minimum adjusted EBITDA ratio covenant with respect to the first quarter of 2012.

   Subsequent to the period of the report, ORL and the financing entities reached agreements regarding changes in the financial covenants constituting part of the financing agreements, such that for the period from June 30, 2012 up to December 31, 2013, new financial covenants will apply to ORL in place of the financial covenants provided in the financing agreements.

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

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

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

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

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

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

Note 5 – Additional Information (Cont.)

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

4. (Cont.)

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

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

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

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

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

   During the period of the report, ORL commenced operating in accordance with this agreement.

5. On May 6, 2012, S&P notified ORL with respect to a reduction of its rating to ilBBB+ from ilA–, with a stable rating outlook. At the same time the rating was removed from the tracking list.

6. Subsequent to the date of the report, on August 26, 2012, Midrug notified Carmel Olefins Ltd., a subsidiary of ORL, regarding reduction of the rating of the debentures of Carmel Olefins Ltd., from a rating of (A2) to a rating of (A3) with a negative rating outlook.

7. On June 30, 2012, ORL recorded a decline in value of inventory, in the amount of about $41 million (the impact on the Corporation is a loss of about $15 million.)

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

1. In the period of the report, I.C. Power invested about $133 million in the power station of O.P.C. Rotem Ltd. (hereinafter – "O.P.C.") (a subsidiary of I.C. Power) and in the integrated cycle power station of Kallpa.

Note 5 – Additional Information (Cont.)

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

2. Further to that stated in Note 17.J of the Annual Financial Statements, during the period of the report, O.P.C. made withdrawals of about $92 million in accordance with the agreement with a consortium of lenders. For purposes of making the withdrawals, O.P.C. obtained a waiver letter with respect to some of the preconditions for making the withdrawal, including waiver of signing of a gas supply agreement as required by the agreement with the consortium of lenders.

3. Subsequent to the date of the report, in August 2012, I.C. Power executed a financial close for receipt of bank financing, in the amount of $534 million, in connection with construction of a hydro project for production of electricity in Peru, Cerro del Aguilla (hereinafter – "CDA"), the planned capacity of which is about 510 megawatts (hereinafter – "the Project"). The cost of the planned investment in the Project is about $900 million, including interest during the construction period. The loan was received from a consortium of 11 foreign banks for a period of 12 years and the average interest is Libor plus about 5%. The first withdrawal is contingent on certain preconditions. Regarding the Corporation's commitment in respect of the financing agreement – see Note 5.A.11.

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

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

G. Qoros Automotive Co. Limited (hereinafter – "Qoros")

1. On April 20, 2012, the District Authority in China instructed the Administrative Land Bureau to reclaim from Qoros the right to use land located in Wuhu and to cancel the land use right certificate, and that the compensation in respect of cancellation of the said right is the responsibility of the District Administrative Committee.

   In consideration for return of the right to use landm Qoros received the amount of about RMB 259 million (about $42 million).

2. Subsequent to the period of the report, in July 2012, Qoros signed a financing agreement with a consortium of foreign banks (hereinafter – "the Financing Agreement"), in the aggregate amount of RMB 3 billion (about $470 million). The currency of the Financing Agreement is the dollar or the RMB – an RMB loan bears interest for 5 years as will be quoted by the Central Bank of China from time to time, whereas a dollar loan will bear interest of Libor plus a margin of 4.8%. The Financing Agreement is for a period of 10 years. Repayment of the loan is to commence 36 months after the first cash withdrawal. Qoros will provide the bank various collaterals for securing repayment of the loan. The Financing Agreement will serve Qoros to finance construction of a plant for production of 150,000 automobiles (construction of the plant is underway, afterwards expansion of the plant is planned). Regarding the Corporation's commitment in respect of the Financing Agreement – see Note 5.A.10.

Note 6 – Contingent Liabilities and Commitments

A. As detailed in Note 22B2(b)(ii), Notes 22B3(a)(i)-(ii) and Note 22B3(ii)-(v), (vii) and (ix) to the Annual Financial Statements, a number of legal claims have been filed against a subsidiary of ICL, ORL, and certain investee companies of ORL, as well as against dozens of other defendants, alleging bodily injury and property damage caused to the plaintiffs stemming from pollution of the Kishon Stream, and there are also legal proceedings against the ORL Group, laws have been enacted and orders have been issued relating to the fuel and gas industry and infrastructure facilities belonging to the ORL Group. The managements of ICL and ORL, based on opinions of their legal advisors, are not able at this stage to estimate the impact of that stated above, if any, on the financial statements as at June 30, 2012 and, therefore, no provisions have been included in the financial statements relating to this matter.

B. In order to conduct its operations, ORL is dependent upon services from the infrastructure companies, Petroleum and Energy Infrastructures Ltd. (hereinafter – "PEI") and Eilat Ashkelon Pipeline Company Ltd. (hereinafter – "EAPC"), which own crucial infrastructures pertaining to the unloading, shipping, storage, and production of crude oil and distillates. According to information furnished to ORL by PEI, PEI is expected to replace part of its offshore pipeline used for unloading crude oil in Haifa Bay and delivery thereof to ORL's refinery. At this stage, there is no estimate as to when PEI is expected to perform the replacement. To the best of ORL's knowledge, the replacement process is expected to continue for about one month, and ORL will make preparations to reduce to a minimum the effect of the shutdown on the scope of the refining, but in any event, some reduction in the extent of the refining during this period is to be expected. For purposes of supply of the natural gas, ORL is dependent on the supply company, Netivei Israel Natural Gas Company Ltd. (hereinafter – "Netivei"), with which it has signed a supply agreement. For details regarding ORL's undertakings with gas suppliers – see Note 6.H below.

C. Further to that stated in Note 22B.1 to the Annual Financial Statements, regarding a derivative claim, on May 20, 2012, the Court approved the compromise agreement. On July 9, 2012, the General Meeting of the shareholders approved certain provisions of the compromise agreement, in accordance with the approval of additional organs of the Corporation and ZIM, the approval of which is required in order to complete the compromise agreement. The Corporation was informed that all the payments under the compromise agreement were made.

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

Note 6 – Contingent Liabilities and Commitments (Cont.)

D. (Cont.)

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

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

Pursuant to the agreement, IPW was granted a right vis-à-vis the Corporation as follows: if credit is provided to IPW by a lending party in an amount that does not exceed NIS 100,000,000 (hereinafter – "the Credit"), which will be used to repay debts of IPW the repayment date of which has arrived, and IPW will choose to place a lien in favor of the lending party on 80,000,000 NIS 1 par value each shares of ORL owned by IPW (hereinafter – "the Lien on IPW's Shares in ORL") to secure repayment of the Credit, the Corporation will be obligated to IPW to place a lien in favor of the lending party on an additional 80,000,000 NIS 1 par value each shares of ORL owned by the Corporation (hereinafter – "the Lien on the Corporation's Shares in ORL"), as additional security for repayment of the Credit, subject to the provisions of the agreement. The Lien on the Corporation's Shares in ORL will apply solely to the shares themselves, and not to the rights to receive dividends or to the voting rights in respect thereof. Exercise of the said right is subject to closing of the transaction between IPW and the "Bereshit" Fund, wherein a loan will be granted to IPW in the amount of NIS 120,000,000 and the consents of IPW's present lending bank to defer a payment in the amount of about NIS 32 million will enter into effect. In June 2012, IPW completed the transaction with the "Bereshit" Fund and received agreement of the financing bank for deferral of the payment.

Note 6 – Contingent Liabilities and Commitments (Cont.)

E. (Cont.)

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

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

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

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

Note 6 – Contingent Liabilities and Commitments (Cont.)

F. Further to that stated in Note 22C2(viii) to the Annual Financial Statements, on January 26, 2012, the Yam Thetys Partnership notified ICL that it is forced to reduce the amount of gas it is supplying, due to depletion of the gas in the well, which it defined as an "Act of G-d" and that, so it appears, based on the data provided in the above-mentioned notice to ICL, the gas in the well of Yam Thetys will be depleted during 2013. The rate of reduction of the supply of gas from the Yam Thetys to ICL's plants between December 2011 and June 2012 amounted to about 50%. ICL notified Yam Thetys that its notification does not meet the contractual requirements for declaration of an "Act of G-d", and that it demands to receive all the information and data, in accordance with its contractual right, in connection with the depletion in the reserve and that it expects from the partners in Yam Thetys to supply gas from other sources it owns. In addition, ICL with the assistance of its legal advisors, is examining the range of its available legal remedies pursuant to the agreement with the Yam Thetys Group.

In addition, on April 22, 2012, East Mediterranean Gas S.A.E. (hereinafter – "EMG"), with which a subsidiary of ICL has signed an agreement for supply of natural gas to the power station it is considering to construct in Sdom, notified that it received a letter from Egyptian General Petroleum Corporation and Egyptian Natural Gas Holding Company ("EGPC/EGAS"), who are the suppliers of the natural gas to EMG, whereby, among other things, EGPC/EGAS request to cancel the gas supply agreement with EMG. In its notification, EMG contends that the cancellation notification it received, as stated, is not legally valid and lacks good faith and it continues to insist that EGPC/EGAS retract the cancellation notification. On June 4, 2012, EMG gave notice that it is forced to agree to cancellation of the agreement between it and EGPC/EGAS, however it is endeavoring to find an alternative supply of gas.

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

On June 4, 2012, EMG notified OPC that it is forced to accept the cancellation notification of its gas suppliers in connection with the gas supply agreement between them. OPC and its legal advisors are examining EMG's notification and its possible courses of action vis-à-vis EMG in accordance with the agreement of undertaking they have signed.

Note 6 – Contingent Liabilities and Commitments (Cont.)

H. Further to that stated in Note 22C4(viii) to the Annual Financial Statements, regarding the undertaking of ORL with EMG for supply of natural gas to the factories of ORL and its subsidiaries, ORL received a notification from EMG, whereby on April 19, 2012, EMG received a letter wherein the production companies, which are its suppliers of natural gas, purport to cancel the agreement for supply of natural gas between with EMG. In the period of the report, EMG notified ORL that it was forced to accept the cancellation notice. ORL sent EMG a notice of cancellation of the agreement with it, while reserving all its rights in connection with the matter. As noted in the note, ORL has an agreement with an additional gas supplier for purposes of supply of gas to its factories however, even though ORL has signed, as stated, two agreements for supply of natural gas to its factories and the factories of its subsidiaries, as at the publication date of the financial statements, supply of the natural gas ORL requires for running its factories is only partial and is not regular, and ORL also uses liquid fuels, at a significantly higher cost than the cost of the natural gas. ORL is acting to utilize its legal rights vis-à-vis the natural gas suppliers with which it has contracted, in accordance with the agreements to which it is a party and, at the same time, it is examining its rights and possible courses of action against them in connection with the agreements for supply of the gas with them.

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

On June 24, 2012, the partners in the natural gas reserve "Hoah Tzafon" gave notice of completion of development of the reserve and commencement of provision of the gas therein to its customers, including ORL.

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

Subsequent to the date of the report, the Government of Israel and ICL's subsidiary, Dead Sea Works (hereinafter – "DSW") signed an agreement spelling out the substance of the outline of principles.

The total royalties paid to the government by Dead Sea Works (DSW) in the years 2011 and 2010, amounted to about $66 million and about $23 million, respectively. During the second quarter of the period of the report, ICL paid additional royalties, in the amount of about $32.5 million in respect of the said years as a result of the agreements reached with respect to raising of the royalties' rate. Provisions for the all of the said amounts were included in the Annual Financial Statements as at December 31, 2011.

Note 6 – Contingent Liabilities and Commitments (Cont.)

I. (Cont.)

Regarding the temporary protections (hereinafter – "the Shoreline Protection"), in December 2007 DSW received a letter from the Ministry of Finance wherein it was provided that the share of DSW in the cost of the Shoreline Protection is at the rate of 39.5%. Subsequent to the date of the report, in July 2012, an appendix to this letter was signed wherein clarifications were provided to a number of issues relating to execution and planning of the Shoreline Protection. The rate of participation of DSW in their financing remains unchanged, as well as the determination that the Government Company for Protection of Dead Sea Works Ltd. is responsible for initiation and execution of the Shoreline Protection project.

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

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

A. Regarding a financing agreement of Qoros with a consortium of foreign banks, in the aggregate amount of 3 billion yuans (about $470 million) – see Note 5.A.10.

B. Regarding agreements ORL reached with financing entities regarding changes in financial covenants – see Note 5.D.2.

C. Regarding waiver letters received by Carmel Olefins, a subsidiary of ORL, from financing banks – see Note 5.D.1.

D. Regarding a notification received by Carmel Olefins from Midrug regarding reduction of the rating of the debentures of Carmel Olefins from a rating of (A2) to a rating of (A3) with a negative outlook – see Note 5.D.6.

E. Regarding a financial close executed by I.C. Power for receipt of bank financing, in the amount of $534 million – see Note 5.E.3.

Israel Corporation Ltd.

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

As at June 30, 2012

(Unaudited)

Israel Corporation Ltd.
Separate Information provided in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970
As at June 30, 2012
Unaudited

Contents

	Page
Special Report of the Auditors' with respect to Separate-Company Financial Information	2
Condensed Interim Statement of Financial Position Information	3 – 4
Condensed Interim Statement of Income Information	5
Condensed Interim Statement of Comprehensive Income Information	6
Condensed Interim Statement of Cash Flows Information	7
Additional Information	8 – 10

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006 Israel

Telephone 972 3 684 8000
Fax 972 3 684 8444
Internet www.kpmg.co.il

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 June 30, 2012 and for the periods of six months and three months ended on that date. The separate-company interim financial information is the responsibility of the Corporation's Board of Directors and Management. Our responsibility is to express a conclusion on the separate-company interim financial information based on our review.

We did not review the condensed interim financial information of an investee company, the investment in which is about $34 million as at June 30, 2012 and the Corporation's share in its loss is about $6 million and in its income is about $2 million for the six-month and three-month periods then ended, respectively. The financial statements of this company were reviewed by other auditors whose review report was provided to us and our conclusion, insofar as it relates to amounts included in respect of this company, is based on the review report of the other auditors.

Scope of the Review

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

Conclusion

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

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

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

2. That stated in Notes 6B and 6H to the Corporation's consolidated financial statements regarding the dependency of an associated company on receipt of services from infrastructure companies and suppliers of natural gas, that stated in Note 5D1 to the Corporation's consolidated financial statements regarding the financial position of certain investee companies of the associated company and the plans of their managements in this connection, and that stated in Note 3 to the Corporation's consolidated financial statements regarding restatement of the financial statements in order to retroactively reflect therein a change in the accounting policy of the associated company regarding measurement of the inventory of crude oil and its related products from the "moving average" method to the "FIFO" method.

Somekh Chaikin
Certified Public Accountants (Isr.)

August 27, 2012

Somekh Chaikin, a partnership registered under the Israeli Partnership Ordinance, is the Israeli member firm of KPMG International, a Swiss cooperative.

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at June 30, 2012
Condensed Interim Statements of Financial Position Information

	At June 30		At December 31
	2012	2011	2011
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Current Assets			
Cash and cash equivalents	**582**	599	476
Short-term deposits	**108**	37	247
Loans to investee companies	**94**	9	11
Other receivables and debit balances	**2**	1	1
Derivative instruments	**51**	95	55
Income taxes receivable	**6**	24	13
Total current assets	**843**	765	803
Non-Current Assets			
Investments in investee companies	**3,158**	*(*)3,324	*3,220
Investments in other companies	**3**	8	3
Loans to investee companies	**650**	598	610
Debit balances, including derivative instruments	**296**	372	276
Total non-current assets	**4,107**	4,302	4,109
Total assets	**4,950**	5,067	4,912

* Insignificant adjustment – see Note 2D to the Corporation's consolidated financial statements.
(*) Retroactive application of accounting policy – see Note 3 to the Corporation's consolidated financial statements.

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at June 30, 2012
Condensed Interim Statements of Financial Position Information

	At June 30		At December 31
	2012	**2011**	**2011**
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Current Liabilities			
Current maturities in respect of non-current liabilities	**543**	437	398
Other payables and credit balances	**38**	31	34
Derivative instruments	**36**	35	30
Total current liabilities	**617**	503	462
Non-Current Liabilities			
Loans from banks	**697**	528	686
Debentures	**1,214**	1,525	1,195
Long-term liabilities, including derivative instruments	**80**	79	103
Total non-current liabilities	**1,991**	2,132	1,984
Total liabilities	**2,608**	2,635	2,446
Equity			
Share capital and premium	**285**	285	285
Capital reserves	**84**	147	98
Capital reserve for transactions with controlling shareholder	**157**	113	137
Retained earnings	**1,816**	*(*)1,887	(*)1,946
Total equity attributable to the owners of the Corporation	**2,342**	2,432	2,466
Total liabilities and equity	**4,950**	5,067	4,912

* Insignificant adjustment – see Note 2D to the Corporation's consolidated financial statements.
(*) Retroactive application of accounting policy – see Note 3 to the Corporation's consolidated financial statements.

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

Approval date of the financial statements: August 27, 2012

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at June 30, 2012
Condensed Interim Statements of Income Information

	For the Six Months Ended June 30		For the Three Months Ended June 30		Year Ended December 31
	2012	**2011**	**2012**	**2011**	**2011**
	(Unaudited)		(Unaudited)		(Audited)
	In Millions of U.S. Dollars				
Administrative and general expenses	**(7)**	(10)	**(3)**	(4)	(19)
Other income	**5**	17	**(1)**	9	19
Operating income	**(2)**	7	**(4)**	5	–
Financing expenses	**(80)**	(171)	**(22)**	(89)	(230)
Financing income	**39**	94	**3**	56	128
Financing expenses, net	**(41)**	(77)	**(19)**	(33)	(102)
Share in income of investee companies, net	**50**	*(*)144	**102**	*(*)162	(*)289
Income before taxes on income	**7**	74	**79**	134	187
Taxes on income (tax benefit)	**6**	19	**(4)**	19	32
Income for the period attributable to the owners of the Corporation	**1**	55	**83**	115	155

* Insignificant adjustment – see Note 2D to the Corporation's consolidated financial statements.
(*) Retroactive application of accounting policy – see Note 3 to the Corporation's consolidated financial statements.

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at June 30, 2012
Condensed Interim Statements of Comprehensive Income Information

	For the				
	Six Months Ended June 30		Three Months Ended June 30		Year Ended December 31
	2012	2011	2012	2011	2011
	(Unaudited)		(Unaudited)		(Audited)
	In Millions of U.S. Dollars				
Income for the period attributable to the owners of the Corporation	**1**	*(*)55	**83**	*(*)115	(*)155
Components of other comprehensive income (loss)					
Effective portion of the change in fair value of cash flow hedges	–	(1)	–	–	(3)
Net change in fair value of cash flow hedges transferred to the statement of income	**1**	1	–	–	2
Net change in fair value of financial assets available for sale	–	(4)	–	–	(4)
Net changes in fair value of available for sale financial assets transferred to the statement of income	–	6	–	–	6
Other comprehensive income (loss) in respect of investee companies, net	**(25)**	34	**(45)**	1	(41)
Other comprehensive income (loss) for the period, net of tax	**(24)**	36	**(45)**	1	(40)
Total comprehensive income (loss) for the period attributable to the owners of the Corporation	**(23)**	91	**38**	116	115

* Insignificant adjustment – see Note 2D to the Corporation's consolidated financial statements.
(*) Retroactive application of accounting policy – see Note 3 to the Corporation's consolidated financial statements.

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at June 30, 2012
Condensed Interim Statements of Cash Flows Information

	For the				
	Six Months Ended June 30		Three Months Ended June 30		Year Ended December 31
	2012	2011	2012	2011	2011
	(Unaudited)		(Unaudited)		(Audited)
	In Millions of U.S. Dollars				
Cash flows from operating activities					
Income for the period	**1**	*(*)55	**83**	*(*)115	(*)155
Adjustments:					
Financing expenses, net	**40**	69	**19**	31	89
Share in income of investee companies, net	**(50)**	*(*)(144)	**(102)**	*(*)(162)	(*)(289)
Capital losses (gains), net	**(5)**	(17)	**1**	(9)	(19)
Share-based payment transactions	**3**	7	**1**	4	11
Loss on investment in available for sale securities	**1**	8	**–**	2	13
Taxes on income	**6**	19	**(4)**	19	32
	(4)	(3)	**(2)**	–	(8)
Change in receivables and income tax receivable	**6**	(13)	**6**	(2)	(17)
Change in payables	**(1)**	–	**(2)**	–	–
	1	(16)	**2**	(2)	(25)
Dividend received	**198**	265	**198**	177	515
Net cash provided by operating activities	**199**	249	**200**	175	490
Cash flows from investing activities					
Investments in investee and other companies	**(25)**	–	**(25)**	–	(55)
Short-term deposits and loans, net	**53**	12	**(89)**	(3)	(200)
Provision of long-term loans to investee companies	**(155)**	(51)	**(49)**	(8)	(101)
Collection of long-term loans from investee companies	**–**	29	**–**	–	29
Interest received	**10**	4	**2**	1	10
Proceeds from sale of derivatives, net	**11**	–	**(4)**	(1)	24
Net cash used in investing activities	**(106)**	(6)	**(165)**	(11)	(293)
Cash flows from financing activities					
Acquisition of non-controlling interests	**(8)**	–	**–**	–	–
Dividend paid	**(120)**	(70)	**(120)**	(70)	(70)
Receipt of long-term loans and issuance of debentures	**390**	50	**192**	50	232
Repayment of long-term loans and debentures	**(196)**	(23)	**(9)**	(11)	(238)
Interest paid	**(52)**	(52)	**(9)**	(17)	(95)
Receipt from (payment) for settlement of derivatives used for hedging	**(1)**	–	**–**	1	–
Net cash provided by (used in) financing activities	**13**	(95)	**54**	(47)	(171)
Net increase in cash and cash equivalents	**106**	148	**89**	117	26
Cash and cash equivalents at the beginning of the period	**476**	458	**494**	491	458
Effect of exchange rate fluctuations on balances of cash and cash equivalents	**–**	(7)	**(1)**	(9)	(8)
Cash and cash equivalents at the end of the period	**582**	599	**582**	599	476

* Insignificant adjustment – see Note 2D to the Corporation's consolidated financial statements.
(*) Retroactive application of accounting policy – see Note 3 to the Corporation's consolidated financial statements.

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at June 30, 2012
(Unaudited)

Additional Information

1. General

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

In this separate-company interim financial information:

(1) The Corporation – Israel Corporation Ltd.

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

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

2. Commitments and Significant Transactions with Investee Companies

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

B. In March and May 2012, the Corporation transferred, through a subsidiary, the amounts of about $36 million and about $24 million, respectively, to Qoros Automotive Company Ltd. (hereinafter – "Qoros") as part of the joint venture's business plan. For additional details regarding the joint venture – see Note 11A3(ii) to the annual consolidated financial statements.

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

D. Further to that stated in Note 22C3(a)(7) to the annual consolidated financial statements during April-May 2012, the Corporation transferred $50 million to ZIM as a loan convertible into ZIM shares, in accordance with the decision of the Corporation's General Meeting on November 3, 2009, and approval of the Corporation's Audit Committee and Board of Directors regarding provision of a framework of $50 million, the full amount of the reserve. The loan bears interest at the rate of Libor plus a margin of 2%.

Additional Information (Cont.)

2. Commitments and Significant Transactions with Investee Companies (Cont.)

D. (Cont.)

In June 2012, the Corporation decided to convert $25 million out of the reserve amount along with interest accrued in respect thereof into share capital of ZIM by means of an issuance of rights for shares of ZIM, based on a value derived from the shareholders' equity attributable to the Corporation's shareholders included in ZIM's latest financial statements prior to the conversion date. After the conversion, the Corporation holds about 99.7% of ZIM's share capital.

E. The Corporation notified Tower of its intention to convert all the capital notes issued by Tower to the Corporation into about 14 million shares of Tower. In addition, the Corporation notified Tower that at this stage it does not intend to register the shares for trading or to trade or sell the shares.

F. On June 26, 2012, the Corporation made a short-term loan to ICL, in the amount of about $50 million, bearing annual interest at the rate of 1.22%. The terms of the loan are comparable to market terms. The repayment date of the loan is September 24, 2012.

G. Subsequent to the period of the report, in July 2012, Qoros signed a financing agreement with a consortium of foreign banks (hereinafter – "the Financing Agreement"), in the aggregate amount of 3 billion yuans (about $470 million) (hereinafter – "the Principal Amount of the Loan") which will serve Qoros to finance construction of a plant for production of 150,000 automobiles (construction of the plant is underway, afterwards expansion of the plant is planned). The Financing Agreement is for a period of 10 years. Qoros will provide the Bank various collaterals for securing repayment of the loan. Chery Automobiles Ltd. (hereinafter – "Chery"), which holds (through a subsidiary) 50% of the share capital of Qoros gave a guarantee to the financing banks, in the amount of 1.5 billion yuans (about $235 million). A company from the city wherein the plant will be constructed provided the financing banks a guarantee in connection with the balance of the loan 1.5 billion yuans (about $235 million). The Corporation committed to Chery to pay it half of every amount it will be required to pay with respect to the guarantee it provided in connection with the Financing Agreement, that is, up to 750 million yuans (about $118 million), as well as with respect to accompanying expenses and interest relating to the Principal Amount of the Loan.

H. Subsequent to the period of the report, in August 2012, I.C. Power executed a financial close for receipt of bank financing, in the amount of $534 million, in connection with construction of a hydro project for production of electricity in Peru, Cerro del Aguilla (hereinafter – "CDA"), the planned capacity of which is about 510 megawatts (hereinafter – "the Project"). The cost of the planned investment in the Project is about $900 million, including interest during the construction period.

The loan was received from a consortium of 11 foreign banks for a period of 12 years and the average interest is Libor plus about 5%. The first withdrawal is contingent on certain preconditions.

Additional Information (Cont.)

2. Commitments and Significant Transactions with Investee Companies (Cont.)

Israel Corporation is a guarantor in an amount estimated at about $65 million and, in addition, Israel Corporation committed that its holdings in Inkia Energy will not fall below the rate of 50.1% (which it currently holds, indirectly, at the rate of 100%). These commitments are valid up to completion of construction of the project, which is expected to take place in 2016.

I.C. Power holds CDA (indirectly) at the rate of 74.9%. The partner, which holds the balance of 25.1%, provided a concurrent guarantee based on its proportionate share.

3. Dividend

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

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

Israel Corporation Ltd.

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

As at June 30, 2012

(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:

Nir Gilad, CEO;

Avisar Paz, CFO;

Eran Sarig, Deputy CEO of Business and Strategic Development;

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

Eli Goldschmidt, Deputy CEO of Communications and Regulations.

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

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

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

In the Quarterly Report regarding the effectiveness of the internal control over the financial reporting and the disclosure, which was attached to the Quarterly Report for the period ended March 31, 2012 (hereinafter – "the Latest Quarterly Report regarding the Internal Control"), the internal control was found to be effective.

Up to the date of the report, no event or matter was brought to the attention of the Board of Directors and the Management that is sufficient to change the evaluation of the effectiveness of the internal control, as found in the Latest Quarterly Report regarding the Internal Control.

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

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

Management Representation
Declaration of the CEO

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

I, Nir Gilad, declare that:

(1) I have examined the financial statements and other financial information included in the statements of Israel Corporation Ltd. (hereinafter – "the Corporation") as at June 30, 2012 (hereinafter – "the Statements").

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

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

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

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

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

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

(a) Have determined controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, which are designed to ensure that significant information relating to the Corporation, including its subsidiaries as defined in the Securities Regulations (Preparation of Annual Financial Statements), 1993, 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.

August 27, 2012

____
Nir Gilad, CEO

Management Representation
Declaration of the most Senior Officer in the Finance Area

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

I, Avisar Paz, declare that:

(1) I have examined the interim consolidated financial statements of Israel Corporation Ltd. (hereinafter – "the Corporation") as at June 30, 2012 (hereinafter – "the Statements").

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

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

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

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

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

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

(a) Have determined controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, which are designed to ensure that significant information relating to the Corporation, including its subsidiaries as defined in the Securities Regulations (Annual Financial Statements), 1993, 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.

August 27, 2012

____
Avisar Paz, CFO

BETTER PLACE, INC. AND SUBSIDIARIES

Condensed Consolidated Financial Statements

June 30, 2012

(With Independent Accountants' Review Report Thereon)

(Unaudited)

KPMG LLP
Mission Towers I
Suite 100
3975 Freedom Circle Drive
Santa Clara, CA 95054

Independent Accountants' Review Report

The Board of Directors
Better Place, Inc.:

We have reviewed the condensed consolidated statement of financial position of Better Place, Inc. and subsidiaries (the Company) as of June 30, 2012 and the related condensed consolidated statements of operations, comprehensive loss and changes in stockholders' equity for the three and six-month periods ended June 30, 2012 and 2011, and the condensed consolidated statements of cash flows for the six-months ended June 30, 2012 and 2011 (the condensed consolidated interim financial information). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial information referred to above for it to be in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have previously audited, in accordance with auditing standards generally accepted in United States of America, the consolidated statement of financial position of Better Place, Inc. and subsidiaries as of December 31, 2011, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 25, 2012, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 2011 is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

KPMG LLP

August 16, 2012

KPMG LLP is a Delaware limited liability partnership,
the U.S. member firm of KPMG International Cooperative
("KPMG International"), a Swiss entity.

BETTER PLACE, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Financial Position

June 30, 2012 (Unaudited) and December 31, 2011

(In thousands, except share information)

Assets		**2012**	**2011**
Property and equipment (note 5)	$	188,123	113,839
Restricted cash		8,296	9,260
Intangible assets		1,000	1,000
Other assets		6,464	3,688
Total noncurrent assets		203,883	127,787
Inventories		6,775	635
Trade accounts receivables		1,794	—
Prepayments and other current assets		17,559	12,097
Restricted cash		11,813	1,142
Marketable securities		37,907	7,164
Cash and cash equivalents		73,123	293,252
Total current assets		148,971	314,290
Total assets	$	352,854	442,077
Stockholders' Deficit			
Common stock, $0.0001 par value. Authorized 416,666,667 shares; outstanding 60,714,208 and 60,644,748 shares at June 30, 2012 and December 31, 2011, respectively (note 6)	$	—	—
Share premium		44,910	42,258
Accumulated other comprehensive loss		(12,946)	(9,406)
Accumulated deficit		(490,268)	(358,480)
Total Better Place, Inc. stockholders' deficit		(458,304)	(325,628)
Noncontrolling interest (note 6)		3,479	5,928
Total stockholders' deficit		(454,825)	(319,700)
Liabilities			
Redeemable convertible preferred stock. Authorized 417,092,525 shares; issuable in series:			
Series A redeemable convertible preferred stock. Authorized 200,000,000 shares; issued and outstanding 200,000,000 shares at June 30, 2012 and December 31, 2011 (note 6 and 7)		96,869	87,235
Series B redeemable convertible preferred stock. Authorized 140,000,020 shares; issued and outstanding 140,000,020 at June 30, 2012 and December 31, 2011 (note 6 and 7)		413,102	397,517
Series C redeemable convertible preferred stock. Authorized 77,092,505 shares; issued and outstanding 44,275,893 at June 30, 2012 and December 31, 2011 (note 6 and 7)		208,671	200,758
Derivative financial instruments (note 7)		4,013	4,124
Loans and borrowings		16,958	6,299
Other long-term liabilities		7,088	5,176
Total long-term liabilities		746,701	701,109
Trade payables		24,197	34,108
Other payables		36,781	26,560
Total current liabilities		60,978	60,668
Total liabilities		807,679	761,777
Total stockholders' deficit and liabilities	$	352,854	442,077

See accompanying notes to condensed consolidated financial statements.

BETTER PLACE, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(Unaudited)

(In thousands)

	Three months ended June 30		Six months ended June 30	
	2012	**2011**	**2012**	**2011**
Net sales	$ 2,441	—	2,743	—
Cost of goods sold	2,135	—	2,409	—
Gross profit	306	—	334	—
Operating expenses:				
Sales and marketing	11,588	16,131	23,584	25,761
Research and development	14,547	16,189	33,061	35,345
General and administrative	10,016	9,220	23,020	15,719
Operations	11,672	5,810	20,789	15,452
Total operating expenses	47,823	47,350	100,454	92,277
Loss from operations	(47,517)	(47,350)	(100,120)	(92,277)
Finance income (note 3)	(2,266)	3,272	(2,182)	4,298
Mark-to-market (loss) gain on derivative instruments (notes 3 and 8)	(314)	35,878	(6)	35,878
Interest expense (return to preferred stockholders) (notes 3 and 7)	(16,724)	(11,786)	(33,132)	(23,220)
Net finance cost	(19,304)	27,364	(35,320)	16,956
Loss before income tax	(66,821)	(19,986)	(135,440)	(75,321)
Income tax benefit (expense) (note 4)	1,369	(701)	1,189	(701)
Net loss	(65,452)	(20,687)	(134,251)	(76,022)
Net loss attributable to noncontrolling interest	1,110	1,139	2,463	2,014
Net loss attributable to Better Place, Inc. Stockholders	$ (64,342)	(19,548)	(131,788)	(74,008)

See accompanying notes to condensed consolidated financial statements.

BETTER PLACE, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Loss

(Unaudited)

(In thousands)

	Three months ended June 30		Six months ended June 30	
	2012	**2011**	**2012**	**2011**
Loss for the period	$ (65,452)	(20,687)	(134,251)	(76,022)
Other comprehensive income (loss):				
Foreign currency translation differences for foreign operations	(7,393)	2,299	(3,632)	2,829
Net change in fair value of available-for-sale securities	11	(10)	(10)	(6)
Comprehensive loss for the period, net of income tax	$ (72,834)	(18,398)	(137,893)	(73,199)
Attributable to:				
Better Place, Inc.	$ (71,334)	(17,259)	(135,328)	(71,185)
Noncontrolling interest	(1,500)	(1,139)	(2,565)	(2,014)
	$ (72,834)	(18,398)	(137,893)	(73,199)

See accompanying notes to consolidated financial statements.

BETTER PLACE, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Changes in Stockholders' Equity

Three and six months ended June 30, 2012 and 2011

(Unaudited)

(In thousands, except for share information)

	Common stock		Share premium	Accumulated other comprehensive income	Accumulated deficit	Noncontrolling interest	Total stockholders' deficit
	Stock	Amount					
Balances as of January 1, 2011	60,261	$ —	33,419	1,072	(145,779)	(7,026)	(118,314)
Total comprehensive income (loss) for the period:							
Net loss	—	—	—	—	(54,460)	(875)	(55,335)
Other comprehensive income							
Currency translation adjustmen	—	—	—	530	—	—	530
Net change in fair value of available-for-sale securitie	—	—	—	4	—	—	4
Total comprehensive income (loss) for the period	—	—	—	534	(54,460)	(875)	(54,801)
Transactions with owners, recorded directly in equity:							
Stock-based compensatior	—	—	481	—	—	—	481
Exercise of common stock option	5	—	3	—	—	—	3
Balances as of March 31, 2011	60,266	—	33,903	1,606	(200,239)	(7,901)	(172,631)
Total comprehensive income (loss) for the period:							
Net loss	—	—	—	—	(19,548)	(1,139)	(20,687)
Other comprehensive income							
Currency translation adjustmen	—	—	—	2,299	—	—	2,299
Net change in fair value of available-for-sale securitie	—	—	—	(10)	—	—	(10)
Total comprehensive income (loss) for the period	—	—	—	2,289	(19,548)	(1,139)	(18,398)
Transactions with owners, recorded directly in equity:							
Sale of subsidiary shares to noncontrolling interest, ne	—	—	66	—	—	7,093	7,159
Stock-based compensatior	—	—	826	—	—	—	826
Exercise of common stock option	170	—	104	—	—	—	104
Balances as of June 30, 2011	60,436	$ —	34,899	3,895	(219,787)	(1,947)	(182,940)
Balances as of January 1, 2012	60,645	$ —	42,258	(9,406)	(358,480)	5,928	(319,700)
Total comprehensive income (loss) for the period:							
Net loss	—	—	—	—	(67,446)	(1,353)	(68,799)
Other comprehensive income							
Currency translation adjustmen	—	—	—	3,473	—	288	3,761
Net change in fair value of available-for-sale securitie	—	—	—	(21)	—	—	(21)
Total comprehensive income (loss) for the period	—	—	—	3,452	(67,446)	(1,065)	(65,059)
Transactions with owners, recorded directly in equity:							
Stock-based compensatior	—	—	1,407	—	—	61	1,468
Exercise of common stock option	22	—	28	—	—	—	28
Balances as of March 31, 2012	60,667	—	43,693	(5,954)	(425,926)	4,924	(383,263)
Total comprehensive income (loss) for the period:							
Net loss	—	—	—	—	(64,342)	(1,110)	(65,452)
Other comprehensive income							
Currency translation adjustmen	—	—	—	(7,003)	—	(390)	(7,393)
Net change in fair value of available-for-sale securitie	—	—	—	11	—	—	11
Total comprehensive income (loss) for the period	—	—	—	(6,992)	(64,342)	(1,500)	(72,834)
Transactions with owners, recorded directly in equity:							
Sale of subsidiary shares to noncontrolling interest, ne							—
Stock-based compensatior	—	—	1,166	—	—	55	1,221
Exercise of common stock option	47	—	51	—	—	—	51
Balances as of June 30, 2012	60,714	$ —	44,910	(12,946)	(490,268)	3,479	(454,825)

See accompanying notes to condensed consolidated financial statements.

BETTER PLACE, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Six months ended June 30, 2012 and 2011

(Unaudited)

(In thousands)

		2012	2011
Cash flows from operating activities:			
Net loss attributable to Better Place, Inc.	$	(131,788)	(74,008)
Net loss attributable to noncontrolling interest		(2,463)	(2,014)
Net loss		(134,251)	(76,022)
Adjustments to reconcile net loss to net cash used in operating activities:			
Net finance cost (Income)		35,320	(16,956)
Income tax (benefit) expense		(1,189)	701
Stock-based compensation to employees		2,689	1,307
Stock-based compensation to non employees		59	77
Depreciation and amortization		6,011	3,967
Loss on disposal of equipment		66	—
Changes in operating assets and liabilities:			
Trade accounts receivables		(1,785)	—
Inventories		(6,573)	(635)
Prepayments, other current assets, and other assets		(8,175)	(2,418)
Accounts payable		(7,866)	4,389
Other accrued liabilities		5,056	7,556
Accrued compensation and employee benefits		6,075	1,952
Interest paid		(175)	(370)
Interest received		1,272	2,014
Income tax paid		(585)	(2,271)
Net cash used in operating activities		(104,051)	(76,709)
Cash flows from investing activities:			
Purchases of marketable securities		(91,385)	(50,862)
Proceeds from sales and maturities of marketable securities		59,958	185,095
Change in restricted cash		(9,974)	(112)
Purchase of property and equipment		(77,665)	(16,548)
Proceeds from the sale of property and equipment		43	—
Net cash (used in) provided by investing activities		(119,023)	117,573
Cash flows from financing activities:			
Advance from Government Agencies		610	—
Proceeds from borrowings		3,346	—
Repayment of borrowings		(331)	—
Proceeds from exercise of common stock options		79	107
Proceeds from sale of subsidiary shares to noncontrolling interest (net of issuance costs)		—	7,159
Net cash provided by financing activities		3,704	7,266
Effect of exchange rate changes on cash and cash equivalents		(759)	1,441
Net increase (decrease) in cash and cash equivalents		(220,129)	49,571
Cash and cash equivalents at beginning of period		293,252	130,115
Cash and cash equivalents at end of period	$	73,123	179,686
Schedule of noncash transactions:			
Acquisition of property and equipment	$	8,723	3,633

See accompanying notes to condensed consolidated financial statements.

(1) Reporting Entity

Better Place, Inc. (Better Place or the Company) was formed in Delaware on November 6, 2007. Better Place is the leading global provider of electric car networks that enables the mass market adoption of electric cars through an innovative battery switch model that makes driving electric cars more affordable, convenient and sustainable than today's petrol-based cars. Better Place owns and operates a network of battery switch stations and public/private charge spots, along with the supply of batteries that power the cars, to provide drivers with instant range extension and the convenience to drive, switch and go across an entire region. Where possible, Better Place uses renewable sources of energy to deliver fully zero emissions driving.

Better Place is launching its first two nationwide networks in Israel and Denmark, with Australia to follow. Since its inception, Better Place has demonstrated its solution across four continents including locations in Europe, the Middle East, the United States, Australia, Japan, and China.

(2) Basis of Presentation

(a) Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Auditing Standards 34 (IAS 34), *Interim Financial Reporting*. They do not include all of the information required for full financial statements, and should be read in conjunction with the condensed consolidated financial statements of the Company as of and for the year ended December 31, 2011.

The condensed consolidated financial statements were authorized for issue by the Board of Directors on August 16, 2012.

The preparation of the condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates although the estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future.

The accounting policies applied by the company in these condensed consolidated interim financial statements are the same as those applied by the company in its consolidated financial statements as at the year ended December 31, 2011.

(b) Revenue

Revenue from the sale of vehicles is primarily generated from the sale of zero emission (Z.E) vehicles including vehicle options, upgrades and accessories. Vehicle sales are recorded when ownership of the vehicle has been transferred, which is generally when a vehicle is delivered to the client and when collectability is reasonably assured.

(c) Going-Concern Basis of Accounting

The Company's condensed consolidated interim financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. Since its founding in 2007, the Company has made substantial investments in research and development, resulting in significant intellectual property, as well as in a large-scale infrastructure deployment program in Israel and Denmark. Given these investments, the Company has incurred net losses and negative cash flows from operations, and currently has an accumulated deficit of $490.3 million, and expects to incur losses in future periods. The Company recently launched its commercial operations and expects to see continued revenue generation with the completion of its networks later this year. Future operations and profitability are dependent on the Company's ability to further commercialize the network of battery switch stations and public/private charge spots and ultimately market acceptance of the Company's solution.

(3) Net Finance Cost (in thousands)

	Three-months ended June 30		Six-months ended June 30	
	2012	2011	2012	2011
Finance income:				
Interest income on bank deposits	$ 201	573	384	1,179
Mark-to-market gain on derivative instruments		35,878	—	35,878
Other income, net		2,699	—	3,119
Finance cost:				
Interest expense (return to preferred stockholders)	(16,724)	(11,786)	(33,132)	(23,220)
Mark-to-market loss on derivative instruments	(314)	—	(6)	—
Other expense, net	(2,467)	—	(2,566)	—
Net finance cost	$ (19,304)	27,364	(35,320)	16,956

(4) Income Taxes (in thousands)

Income taxes are accounted for under the asset and liability method. The net income tax benefit of $1,369 and $1,189 for the three and six months ended June 30, 2012, respectively, are related to taxes from certain foreign subsidiaries. The company evaluates the recoverability for deferred tax assets regularly and only records the deferred tax assets on the financial statements that are probable to be recognized.

(5) Property and Equipment (in thousands)

During the six months period ended June 30, 2012 and 2011 the Company acquired assets with a cost of $86,388 and $20,181 respectively. The investment in the six months period ended June 30, 2012 mainly relate to the construction of the Company network of battery switch stations and public/private charge spots.

(Continued)

(6) Capital

(a) *Share Capital and Share Premium (in thousands of shares)*

	Common stock	
	June 30, 2012	**December 31, 2011**
Issued at beginning of period	60,645	60,261
Exercise of share options	69	384
Issued at end of period	60,714	60,645

(b) *Redeemable Preferred Stock*

In April 2010, the Company received $350 million in total gross proceeds and issued 116,666,667 shares of Series B Redeemable Convertible Preferred Stock at a price of $3.00 per share. Unless certain conditions relating to additional funding of the Company's operating companies were met during 2010, the price per Series B share would be reduced to $2.50, resulting in an increase in the number of shares issued through the Series B funding round. In December 2011, the Company had issued an additional 23,333,353 shares of Preferred Series B Stock under the terms of its agreement with the Series B Stockholders.

In November 2011, the Company entered into an agreement to sell 44,275,893 shares of Preferred Series C Stock at a price of $4.54 each. In December 2011, the Company had issued 44,275,893 shares of Preferred Series C Stock for total proceeds of $201 million.

Significant terms of the redeemable convertible preferred stock are as follows:

- Preferred stockholders have the option to convert each preferred share into one ordinary share. The preferred shares will automatically convert into ordinary shares upon an initial public offering in which (i) the public offering price per share is at least one and one-half times the sum of the Series B Preferred Stock Original Issue Price plus the average Unsatisfied Preferred Return of all outstanding shares of Preferred Stock as of the date of such closing, and (ii) gross proceeds to the Company are at least $550 million.
- Each redeemable convertible preferred share has voting rights equivalent to the number of ordinary shares into which it is convertible.
- Holders of redeemable convertible preferred shares are entitled to receive a cumulative preferred return, at a rate of 8% per annum, as adjusted for share splits, share dividends, reverse share splits, share combinations, reorganizations, and the like.
- In the event of liquidation, dissolution, or winding up of the affairs of the Company, proceeds shall be distributed first to the payment of debts and liabilities of the Company, second to the payment of liquidation expenses, and third to the setting up of the liquidation reserves deemed necessary. The balance of the proceeds, if any shall then be distributed to the holders of

Series A, B, and C Preferred shares in proportion to their Unsatisfied Preferred Returns, next to any outstanding Unreturned Capital Balances. Should there be any further balance remaining, it shall be distributed to the Ordinary Members in proportion to their respective class percentage interests. The Unsatisfied Preferred Return is the amount that the aggregate Preferred Return exceeds the aggregate amount of all distributions made. The Unreturned Capital Balance means the capital contributions made with respect to the each series of preferred shares, reduced by the aggregate amount of the distributions to date.

- Redeemable convertible preferred shares are redeemable at any time after April 21, 2020, but prior to a qualified public offering upon the affirmative vote or written consent of the holders of a majority of the then-outstanding shares of preferred share (the Redemption Request). The redemption shall be at a redemption price, on a per-share basis, equal to the sum of the Unsatisfied Preferred Return plus the Unreturned Capital Balance applicable to each share as of the close on business on that day on which the Company receives a redemption notice. Within 30 days of the receipt of the notice, each member who did not participate in the Redemption Request may notify the Company that it wishes to participate in the redemption closing.

The redeemable preferred shares are accounted for as a financial instrument with an embedded derivative. The embedded derivative presenting the conversion option has an insignificant fair value for both 2012 and 2011. The fair value of the conversion option was determined to be insignificant because the right to convert from convertible preferred shares to ordinary shares at June 30, 2012 and December 31, 2011 does not provide a significant benefit. The fair value of the conversion option may increase in future years depending on the development of the Company.

The carrying value of the liability with respect to the redeemable preferred stock was determined based on the proceeds received upon issuance of the securities plus the cumulative preferred return of 8% per annum, by the outstanding preferred stock balance reduced by the allocated losses incurred by the Company until April 22, 2010, the date of the Company’s corporate restructuring.

(c) Noncontrolling Interests

As result of agreements signed with outside investors, during 2011 investors and the Company invested approximately $13 million each in subsidiaries of Better Place. There has been no change in the ownership interest of either subsidiaries with noncontrolling interests since December 31, 2011.

(7) Redeemable Preferred Stock (in thousands)

	Series A	Series B	Series C	Total
Balance as of December 31, 2010	$ 68,993	368,008	—	437,001
Issuance of redeemable preferred stock, net	—	—	199,495	199,495
Return to preferred stockholders	18,242	29,509	1,263	49,014
Balance as of December 31, 2011	87,235	397,517	200,758	685,510
Return to preferred stockholders	9,634	15,585	7,913	33,132
Balance as of June 30, 2012	$ 96,869	413,102	208,671	718,642

Effective April 22, 2010, the Company underwent a corporate restructuring becoming a Delaware C Corporation under the laws of the state of Delaware. The Company's accumulated deficit through the date of conversion was allocated to Series A Preferred Stockholders. The Company's losses following its conversion to a Delaware C corporation are recognized in the accumulated deficit as a component of stockholders' deficit.

As of June 30, 2012 and December 31, 2011, the fair value of the redeemable preferred stock is approximately $960 million and $940 million, respectively, while the fair value of the redeemable preferred stock dividends is approximately $129 million and $96 million, respectively.

The fair value of the redeemable convertible preferred stock June 30, 2012 and December 31, 2011 was determined by the Company in consultation with an independent valuation expert. The enterprise value of the Company was determined by using an accepted valuation methodology by considering the expected value implied in its last preferred stock financing round. The key inputs to the option pricing method was the Series C financing price, which was considered to be at arm's length, and volatility of 0.75, which was an expected volatility based on historical volatilities of guideline public companies. The determined enterprise value was then allocated to the Company's securities using an option pricing method and considered the specific rights and preferences of the Company's equity securities. A private company discount was considered in coming up with the final allocated value for the preferred stock on a nonmarketable basis.

The fair value of the redeemable preferred stock dividends approximates the carrying value in June 30, 2012 and December 31, 2011. The fair value is subject to change in the future depending on the operating results of the Company.

(8) Derivative Financial Instruments

A subsidiary agreed in 2009 to issue derivative instruments to an investor. The main terms for these instruments that remain relevant at June 30, 2012 and December 31, 2011 and the related accounting are as follows:

Antidilution Warrants. The investor was issued warrants to purchase units of the subsidiary, exercisable for a number of units up to 10 million only after a dilutive issuance of units and the Company may issue additional warrants, if so required by the agreement. The anti-dilution warrant does not meet the "fixed for fixed" criteria since the number of units that the subsidiary may have to issue varies up to 10 million units (or additional units, if so required by the agreement) depending on the number of ordinary units outstanding on date of exercise as well as the number of units required to be issued to return the investor's ownership percentage back to the value it was before a dilution event occurred. As a result, this warrant is recorded as a liability and recorded at fair value for each reporting period until either the criteria for equity classification per IAS 32 are met or the contract is settled.

Accretion Warrants. The investor was issued warrants to purchase units of the subsidiary, which are exercisable for a number of units up to 2 million immediately prior to the Liquidity Event as stated in the agreement providing that, for every $12.6 million (€10.0 million) that the total amount of funds raised by the subsidiary, including debt, prior to such Liquidity Event is less than $188.7 million (€150 million), the investor may increase its ownership position by 1%, up to 5% total. A "Liquidity Event" includes an Initial Public Offering (IPO) of the subsidiary, a change of control in the subsidiary, a sale of most of the ordinary units of the subsidiary, or an IPO of the Company. The warrant instrument did not meet the "fixed for fixed" criterion per IAS 32. As a result, this warrant is recorded as a liability and recorded at fair value for each reporting period until either the criteria for equity classification per IAS 32 are met or the contract is settled.

Investor Financing Option. In addition to the investments and warrants described above, the investor has the option to increase its ownership position by up to 7.5% in the subsidiary by converting into shares amounts up to $75.5 million (€60.0 million) could be due from the Company for principal and interest due for services if performed by the investor through a separate financing agreement.

The investor may choose to provide cash in lieu of some or all of the $75.5 million (€60.0 million) in services to acquire the additional 7.5% of the outstanding equity at the time of such payment. As the number of units that will be issued is variable depending on the number of shares outstanding, as well as upon other considerations, the instrument's features did not meet the "fixed for fixed" criterion per IAS 32. Accordingly, the instrument is recorded as a liability and recorded at fair value on the date of issuance and each reporting period until either the criteria for equity classification per IAS 32 are met or the contract is settled. Further, since this feature actually comprises two conversion options, which are exercisable irrespective of one another, they have been recorded separately based upon their respective terms of (a) exercise price of $63.0 million (€50 million) for 5.1% ownership and (b) exercise price of $12.6 million (€10.0 million) for 2.4% ownership interest.

The fair value of the derivative liability for the conversion option on the principal and interest component of the derivative was reduced due to a change in expected funding sources during 2011. The anti-dilutive warrant component of the derivative instrument will continue to carry value as the subsidiary may raise funds through equity in the future. In this scenario, the investor would be compensated for the dilutive effect of their decreased equity position in the subsidiary through the increase in the value of this derivative instrument. The protection for the investor's equity position provided by the anti-dilutive warrant is limited by the amount of financing, whether equity or debt, raised by the subsidiary. Further, the anti-dilutive warrant component of the derivative instrument will cease to have any value if the subsidiary first raises a certain amount debt financing before raising any additional equity financing or if the warrant is not exercised within a specific time period following dilutive equity issuances.

On June 30, 2012 and June 30, 2011, the Company compared the value of the liability instruments to the values as determined in the independent valuation and marked to market those instruments with a corresponding loss of $0 million and of $35.9 million benefit, respectively.

In addition to the mark-to-market impact, the changes in value of the euro liability instruments of $0.1 million and $3.3 million benefit in the six months ended 2012 and 2011, respectively, are the result of their translation into U.S. dollars using exchange rates in effect at the end of each period. Gains and losses from these translations are credited or charged to foreign currency translation included in accumulated other comprehensive income in stockholders' equity.

(9) Share-Based Payments (in thousands, except for shares information)

(a) Description of the Share-Based Payment Arrangements

Options granted to employees are subject to a combination of term vesting and performance vesting requirements determined by the Company's achievement of its operating goals. These options are subject to early exercise and are subject to buy-back at the option of the Company, until they vest. The vesting schedules for options are determined by the board of directors (generally two years) and generally expire 10 years after the date of grant.

For all options granted during the year, the fair value of each option is estimated on the date of grant using the Black-Scholes model. The Black-Scholes model includes assumptions regarding dividend yields, expected volatility, expected term, and risk-free interest rates. These assumptions reflect management's best estimates, but involve inherent market uncertainties based on market conditions generally outside of the control of the Company. As a result, if other assumptions had been used in the current period, stock-based compensation expense could have been materially different. Furthermore, if management uses different assumptions in future periods, stock-based compensation expense could be materially different in future years. The Company uses a combination of the projected dates of achievement of the corporate goals together with individual option vesting periods to estimate the expected term of the option. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The volatility for the expected term of the option is based on volatility rates of comparable public peer companies.

On September 7, 2011, the Company's compensation committee of the board of directors approved a change to the Better Place Inc. and Better Place H.T (2009) LTD. Stock options plans under which the vesting period of the stock options awards will change from four years to two years. The change was treated as a modification of the terms of an equity award and was treated as an exchange of the original award for a new award. The additional expenses resulting from the acceleration of the vesting period was recorded at the date of modification. Additionally, the compensation committee approved the reallocation of stock options between performance vesting milestones. For the milestones that are considered probable, the Company recorded at date of modification the additional compensation expenses based on the option value at the initial grant date.

At June 30, 2012 and December 31, 2011, the Company has the following equity settled share-based payment arrangements:

(i) Better Place, Inc. and Certain Subsidiaries

The stock option plans allow options to be granted to employees, officers, and directors and consultants to purchase shares of ordinary stock. The exercise price of an incentive stock option is at the fair market value of the stock as determined by the board of directors supported by an independent third-party valuation. With respect to nonqualified stock options, the exercise price is not less than 100% of the fair market value of the stock as determined by the board of directors.

As of June 30, 2012, approximately 34,495,944 shares were reserved for issuance to employees, consultants, and directors under the plans, respectively, and 26,926,857 shares and 2,074,199 shares were available for future grant under the Better Place, Inc. and the subsidiary's plans, respectively.

As of December 31, 2011, approximately 31,289,130 shares were reserved for issuance to employees, consultants, and directors under the plans, respectively, and 28,871,709 shares and 1,848,650 shares were available for future grant under the Better Place, Inc. and the subsidiary's plans, respectively.

(ii) Other Subsidiary

This plan allows management shares to be granted to employees, officers, and directors and consultants to purchase shares of ordinary stock in the subsidiary. As of June 30, 2012 and December 31, 2011, approximately 50,600,000 management shares had been granted under this plan.

The management shares carry economic rights equivalent to those for ordinary stock options. The management shares can be converted into ordinary shares once specified milestones are attained by the subsidiary through the payment of a reclassification cost per share. If the milestones are not reached by designated times or in certain other circumstances, then the subsidiary has the right to redeem the management shares for the issue price. The effective price (sum of issue price and reclassification amount) of the ordinary shares if the milestones are achieved and the shares are then reclassified is $0.34 per share. In order to facilitate the

employees' purchase of the management shares, the subsidiary issued loans to the employees for the issue price of the management shares of $0.06 per share on an interest-free nonrecourse basis).

The total stock-based compensation expense recorded under the above plans was $1,244 and $875 for the three-month periods ended June 30, 2012 and 2011, respectively. The total stock-based compensation expense recorded under the above plans was $2,748 and $1,384 for the six-month periods ended June 30, 2012 and 2011, respectively.

(b) Disclosures of Better Place, Inc. Stock Option Program

Employee Stock Options outstanding as of June 30, 2012 are as follows:

		Outstanding		Exercisable	
	Exercise price	**Number of shares**	**Weighted average remaining contractual life (years)**	**Number of shares**	**Weighted average remaining contractual life (years)**
$	0.85 – 1.65	21,375,727	8.26	6,367,351	8.06

Nonemployee Stock Options outstanding as of June 30, 2012:

		Outstanding		Exercisable	
	Exercise price	**Number of shares**	**Weighted average remaining contractual life (years)**	**Number of shares**	**Weighted average remaining contractual life (years)**
$	0.85 – 1.55	1,694,416	7.41	1,199,139	7.29

Employee Stock Options outstanding as of December 31, 2011 are as follows:

		Outstanding		Exercisable	
	Exercise price	**Number of shares**	**Weighted average remaining contractual life (years)**	**Number of shares**	**Weighted average remaining contractual life (years)**
$	0.85 – 1.55	18,861,543	8.49	5,283,764	8.33

Nonemployee Stock Options outstanding as of December 31, 2011:

		Outstanding		Exercisable	
	Exercise price	**Number of shares**	**Weighted average remaining contractual life (years)**	**Number of shares**	**Weighted average remaining contractual life (years)**
$	0.85 – 1.31	1,622,000	7.79	1,186,600	7.79

Disclosures of Share Option Program

The number and weighted average exercise price of share options were as follows:

		Weighted average exercise price	**Number of options**
Outstanding at December 31, 2010	$	0.94	19,300,487
Granted during the year		1.41	5,389,473
Forfeited during the year		0.95	(3,857,713)
Exercised during the year		0.86	(348,704)
Outstanding at December 31, 2011		1.06	20,483,543
Granted during the year		1.57	3,838,600
Forfeited during the year		1.05	(1,182,540)
Exercised during the year		1.08	(69,460)
Outstanding at June 30, 2012		1.14	23,070,143
Vested and expected to vest		1.14	20,536,114

Inputs for Measurement of Grant Date Fair Values

The grant date fair value of all share-based payment plans was measured using the Black-Scholes option pricing model. Expected volatility is estimated by considering peer company historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the share-based payment plan for 2011 and 2012 are the following:

		Stock option program
Fair value of stock options and assumptions:		
Fair value at grant date	$	0.83-1.21
Share price at grant date		1.31-1.65
Exercise price		1.31-1.65
Expected volatility (weighted average volatility)		78%-81%
Option life (expected weighted average life)		5-10 years
Expected dividends		—
Risk-free interest rate (based on government bonds)		0.8%-3.2%

The tables included in (b) above exclude amounts related to stock options issued during the year under the Subsidiary Operating Company Plans as the amounts were not considered to be material to the condensed consolidated interim financial statements.

(c) ***Employee Expenses***

		Three months ended June 30		Six months ended June 30	
		2012	2011	2012	2011
		(In thousands)			
Stock options granted in 2009	$	202	61	404	166
Stock options granted in 2010		139	371	332	747
Stock options granted in 2011		568	394	1,239	394
Stock options granted in 2012		311	—	714	—
Total expense recognized as employee costs	$	1,220	826	2,689	1,307

(d) Key Management Personnel Compensation

Grant date/employees entitles	Number of options Six months ended June 30 2012	2011	Contractual life of option
Option grant to senior employees, net at $1.31 – 1.55	350,000	350,000	10 years
Option grant to other employees, net at $0.85 – 1.65	3,388,600	2,721,500	10 years
Total share options	3,738,600	3,071,500	

(10) Financial Instruments

(a) Credit Risk

Exposure to Credit Risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows (in thousands):

	Carrying amount June 30, 2012	December 31, 2011
Marketable securities*	$ 67,269	131,625
Trade accounts receivables	1,794	—
Prepayments and other current assets	17,559	12,097
Money market funds	27,525	135,748
Restricted cash	20,109	10,402
Cash	16,236	33,043
	$ 150,492	322,915

* Includes cash equivalents and short-term marketable securities.

The maximum exposure to credit risk at the reporting date by geographic region was as follows (in thousands):

	Carrying amount	
	June 30, 2012	**December 31, 2011**
United States	$ 87,550	262,734
Israel	49,449	33,460
Denmark	9,907	17,657
Australia	1,961	6,665
Other regions	1,625	2,399
	$ 150,492	322,915

(b) Liquidity Risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements (in thousands):

	Carrying amount					
June 30, 2012	**Contractual cash flows**	**6 months or less**	**6 – 12 months**	**1 – 2 years**	**2 – 5 years**	**More than 5 years**
Nonderivative financial liabilities:						
Dividend on redeemable preferred shares	$ 854,716	—	—	—	—	854,716
Note payable to related party	1,000	—	—	—	—	1,000
Redeemable convertible preferred stock	589,601	—	—	—	—	589,601
Loans and borrowings	18,585	1,005	622	1,467	15,491	—
Trade and other payables and accrued liabilities	63,944	53,656	5,695	1,285	605	2,703
	$ 1,527,846	54,661	6,317	2,752	16,096	1,448,020

		Carrying amount				
December 31, 2011	Contractual cash flows	6 months or less	6 – 12 months	1 – 2 years	2 – 5 years	More than 5 years
Nonderivative financial liabilities:						
Dividend on redeemable preferred shares	$ 855,805	—	—	—	—	855,805
Note payable to related party	1,000	—	—	—	—	1,000
Redeemable convertible preferred stock	589,602	—	—	—	—	589,602
Loans and borrowings	6,299	—	—	—	6,299	—
Trade and other payables and accrued liabilities	64,844	52,461	8,207	1,216	2,960	—
	$ 1,517,550	52,461	8,207	1,216	9,259	1,446,407

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(c) *Currency Risk*

In general, the Company is a net payer of currencies other than the U.S. dollar. Accordingly, changes in exchange rates, and in particular a weakening of the U.S. dollar, will negatively affect the Company's operating expense as expressed in U.S. dollars. There is also a risk that the Company will have to adjust local currency spending when there has been significant volatility in foreign currency exchange rates.

The Company may purchase foreign currencies with financial institutions to protect against foreign exchange risks associated with certain existing assets and liabilities, certain firmly committed transactions, forecasted future cash flows, and net investments in foreign subsidiaries. Generally, the Company's practice is to naturally hedge a majority of its material foreign exchange exposures, typically for three to six months. However, the Company may choose not to hedge certain foreign exchange exposures for a variety of reasons, including but not limited to immateriality, accounting considerations and the prohibitive economic cost of hedging particular exposures.

(d) *Fair Values*

Fair Value versus Carrying Amounts

The carrying values of cash and cash equivalents, marketable securities, prepayments and other current assets, dividends on redeemable preferred shares, accounts payable, and other current and noncurrent accrued liabilities approximate their fair value. The carrying values of the embedded derivatives are marked to market at each reporting period and are recorded in accrued liabilities at their estimated fair value.

Fair Value Hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows (in thousands):

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Description		Total at June 30, 2012	Level 1	Level 2	Level 3
Assets:					
Cash	$	16,236	16,236	—	—
Money market funds		27,525	27,525	—	—
Marketable securities		67,269	67,269	—	—
Restricted cash		20,109	20,109		—
Total	$	131,139	131,139	—	—
Liabilities:					
Derivative financial instruments	$	4,013	—	—	4,013

Description		Total at December 31, 2011	Level 1	Level 2	Level 3
Assets:					
Cash	$	33,043	33,043	—	—
Money market funds		135,748	135,748	—	—
Marketable securities		131,625	131,625	—	—
Restricted cash		10,402	10,402	—	—
Total	$	310,818	310,818	—	—
Liabilities:					
Derivative financial instruments	$	4,124	—	—	4,124

The fair value of the derivative financial instruments as of January 27, 2009, December 31, 2011, and June 30, 2012 were determined by the Company based on the analysis prepared by an

independent valuation expert. The fair value of the instruments is based on the underlying fair value of the issuing subsidiary, which is determined by the following key inputs: 1) discounted cash flows; 2) peer volatility; and the 3) marketability discount of the underlying shares of the issuing subsidiary's ordinary stock. The source of the inputs were determined as follows: 1) discounted cash flows were based on projections of local management with input from Better Place management considering the overall group's operational roadmap; 2) selection of public companies that would be reasonably considered peers; and 3) the discount on lack of marketability based on ordinary metrics used by independent valuation experts. Accordingly, all of these instruments are based on significant inputs that are not observable in the market, referred to as Level 3 inputs. The Company utilized the Discounted Cash Flows and Monte Carlo simulation methodology to determine the enterprise value (an input for the overall liability valuations) and liability valuation, respectively.

(11) Operating Leases

The Company and its subsidiaries operate from leased premises in the United States, Israel, Australia, Denmark, France, and Japan. The Company is committed to pay a portion of the buildings' operating expenses as determined under the lease agreements. Future minimum lease payments due under the related operating leases with an initial or remaining noncancelable lease term in excess of one year as of June 30, 2012 are as follows (in thousands):

Six-month period ending December 31,		
2012	$	3,786
Years ending December 31:		
2013		6,913
2014		5,940
2015		4,982
2016		2,069
Thereafter		2,861
	$	26,551

Certain lease arrangements have free or escalating rent payment provisions, and when significant, the rent expense is recognized on a straight-line basis over the lease period resulting in a deferred rent liability. Leasehold improvements are amortized over the shorter of their useful life or the contractual lease term. Rent expense under operating leases was approximately $3,047 and $2,648 for the Six months ended June 30, 2012 and 2011, respectively.

(12) Commitments

The Company's contractual obligations are disclosed in the financial statements for the year ended December 31, 2011. There were no material changes to the contractual obligations during the Six months ended June 30, 2012.

(13) Related Parties

The Company's related party transactions are disclosed in the consolidated financial statements for the year ended December 31, 2011. There were no material changes to the related party transactions during the Six months ended June 30, 2012.

(14) Company Entities

Following is a listing of significant subsidiaries:

		Ownership interest	
	Country of incorporation	**June 30, 2012**	**December 31, 2011**
Better Place Denmark A/S	Denmark	83	83
Better Place Australia	Australia	90	90
Better Place H.T (2009) Ltd	Israel	100	100
Better Place Labs (Israel) Ltd	Israel	100	100
Better Place GmbH	Switzerland	100	100

(15) Subsequent Events

On July 12, 2012 the Company entered into a loan facility with a European Bank under which the bank has made available to the Company a multidraw term loan facility in an aggregate principal amount of up to $50.3 million (€40 million). The Company's ability to draw down funds under the loan facility is conditioned upon several draw conditions.

Qoros Automotive Co., Ltd.

(formerly known as Chery Quantum Auto Co., Ltd.)

Condensed interim financial information
for the respective six months and three months periods
ended 30 June 2012

Independent auditors' report on review of condensed interim financial information to the board of directors of Qoros Automotive Co., Ltd.
(Established in the People's Republic of China with limited liability)

Introduction

We have reviewed the accompanying condensed statement of financial position of Qoros Automotive Co., Ltd. (formerly known as Chery Quantum Auto Co., Ltd.) as at 30 June 2012, the condensed statements of comprehensive income for the respective six months and three months periods then ended, the condensed statements of changes in equity and cash flows for the six months period then ended, and notes to the interim financial information ("the condensed interim financial information"). Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

Our responsibility is to express a conclusion on this condensed interim financial information, based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as at 30 June 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

50th Floor, Plaza 66
1266 Nanjing West Road
Shanghai, China

31 July 2012

Condensed statement of comprehensive income

for the respective six months and three months periods ended 30 June (unaudited)

In thousands of RMB	Note	For the six months ended		For the three months ended	
		30 June 2012	30 June 2011	30 June 2012	30 June 2011
Other income		10,762	-	10,762	-
Research and development expenses	4	(102,083)	(460,411)	(35,282)	(173,007)
Administrative expenses		(131,285)	(68,626)	(72,290)	(34,043)
Other expenses		(1,144)	(956)	(378)	(763)
Results from operating activities		(223,750)	(529,993)	(97,188)	(207,813)
Finance income	5(a)	22,748	18,871	14,999	10,284
Finance costs	5(a)	-	(23,992)	-	(18,107)
Net finance income /(costs)	5(a)	22,748	(5,121)	14,999	(7,823)
Loss before tax		(201,002)	(535,114)	(82,189)	(215,636)
Tax expense	6	-	-	-	-
Loss for the period		(201,002)	(535,114)	(82,189)	(215,636)
Net change in fair value of available-for-sale financial assets		4,489	-	1,333	-
Net change in fair value of available-for-sale financial assets reclassified to profit or loss	5(a)	(3,990)	-	(834)	-
Other comprehensive income for the period, net of tax		499	-	499	-
Total comprehensive income for the period		(200,503)	(535,114)	(81,690)	(215,636)

The notes on pages 6 to 17 form part of this condensed interim financial information.

Condensed statement of financial position

(unaudited)

In thousands of RMB	Note	30 June 2012	31 December 2011
Assets			
Property, plant and equipment	7	686,430	310,382
Intangible assets	8	749,730	385,481
Prepayments for purchase of equipment		116,967	38,106
Lease prepayments	9	219,160	249,202
Other receivables	10	30,097	31,020
Pledged deposits	11	42,836	42,836
Non-current assets		1,845,220	1,057,027
Available-for-sale financial assets	12	370,000	440,000
Other receivables	10	99,988	51,676
Prepayments		87,445	8,172
Pledged deposits	11	15,016	2,917
Cash and cash equivalents	13	1,090,309	1,047,186
Current assets		1,662,758	1,549,951
Total assets		3,507,978	2,606,978
Equity			
Paid-in capital	14	4,231,840	3,481,840
Reserves		573	74
Accumulated losses		(1,515,080)	(1,314,078)
Total equity		2,717,333	2,167,836

The notes on pages 6 to 17 form part of this condensed interim financial information.

Condensed statement of financial position (continued)

(unaudited)

In thousands of RMB	Note	30 June 2012	31 December 2011
Liabilities			
Finance lease liabilities	15	2,471	5,350
Non-current liabilities		2,471	5,350
Loans and borrowings	16	492,422	80,000
Other payables	17	290,084	348,302
Finance lease liabilities	15	5,668	5,490
Current liabilities		788,174	433,792
Total liabilities		790,645	439,142
Total equity and liabilities		3,507,978	2,606,978

The condensed interim financial information was approved and authorised for issue by the Board of Directors.

Guo Qian	Volker Steinwascher	John Meng
Chairman and CEO	*Vice-Chairman*	*CFO*

Date:

The notes on pages 6 to 17 form part of this condensed interim financial information.

Condensed statement of changes in equity

for the six months ended 30 June (unaudited)

In thousands of RMB	Paid-in capital	Capital reserve	Fair value reserve	Accumulated losses	Total
Balance at 1 January 2011	2,921,840	-	-	(612,845)	2,308,995
Loss for the period	-	-	-	(535,114)	(535,114)
Other comprehensive income for the period	-	-	-	-	-
Balance at 30 June 2011	2,921,840	-	-	(1,147,959)	1,773,881
Balance at 1 January 2012	3,481,840	74	-	(1,314,078)	2,167,836
Capital injection from investors	750,000	-	-	-	750,000
Loss for the period	-	-	-	(201,002)	(201,002)
Other comprehensive income for the period	-	-	499	-	499
Balance at 30 June 2012	4,231,840	74	499	(1,515,080)	2,717,333

The notes on pages 6 to 17 form part of this condensed interim financial information.

Condensed statement of cash flows

for the six months ended 30 June (unaudited)

In thousands of RMB	2012	2011
Net cash used in operating activities	(295,395)	(418,008)
Net cash used in investing activities	(826,696)	(119,779)
Net cash from/(used in) financing activities	1,165,214	(565)
Net decrease in cash and cash equivalents	43,123	(538,352)
Cash and cash equivalents at 1 January	1,047,186	1,751,907
Cash and cash equivalents at 30 June	1,090,309	1,213,555

The notes on pages 6 to 17 form part of this condensed interim financial information.

Notes to the unaudited condensed interim financial information

1 Reporting entity

Qoros Automotive Co., Ltd. (formerly known as Chery Quantum Auto Co., Ltd.) ("the Company") is a sino-foreign joint equity enterprise established on 24 December 2007 in the People's Republic of China ("PRC") by Wuhu Chery Automobile Investment Co., Ltd ("Wuhu Chery") and Quantum (2007) LLC. The Company's registered office is Ch angshu, Jiangsu Province, PRC. According to notice (Guo)Mingchengbianhewaizi[2011]No.236 dated 1 December 2011, the Company changed its legal name from Chery Qua ntum Auto Co., Ltd. to Qoros Automotive Co., Ltd. A revised business licence (No.340 000400000672) was obtained on 15 May 2012.

The Company's period of operation is 25 years and its principal activities are research and development, manufacture and sale of automobiles and related fittings and spare parts.

2 Basis of preparation

(a) Statement of compliance

This condensed interim financial information has been prepared in accordance with IAS 34 *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the last annual financial statements as at and for the year ended 31 December 2011. This condensed interim financial information does not include all of the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards.

This condensed interim financial information is unaudited, but has been reviewed by KPMG Huazhen in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.

(b) Judgements and estimates

Preparing the interim financial information requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed interim financial information, significant judgements made by Management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the financial statements as at and for the year ended 31 December 2011.

3 Significant accounting policies

The International Accounting Standards Board has issued a few amendments to IFRSs that are first effective for the accounting period beginning on 1 January 2012. None of these amendments are relevant to the Company's interim financial information. The accounting policies applied by the Company in this condensed interim financial information are the same as those applied by the Company in its financial statements as at and for the year ended 31 December 2011. The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 Research and development expenses

Research and development expenses are the expenses incurred for the research and development activities of car models and platform including CF11, CF14, CF16 and CF1X.

In thousands of RMB	For the six months ended		For the three months ended	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
CF11, CF14, CF16 and CF1X	102,083	460,411	35,282	173,007

5 Loss before income tax

Loss for the period is arrived at after charging/(crediting):

In thousands of RMB	For the six months ended		For the three months ended	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
(a) Net finance income/(costs):				
Interest income from available-for-sale financial assets	3,990	8,954	834	4,945
Interest income from banks	9,358	9,917	5,931	5,339
Net foreign exchange gain	9,400	-	8,234	-
Finance income	22,748	18,871	14,999	10,284
Interest expense (Note 7&8)	-	(9,874)	-	(9,874)
Net foreign exchange loss	-	(14,118)	-	(8,233)
Finance costs	-	(23,992)	-	(18,107)
Net finance income/(costs)	22,748	(5,121)	14,999	(7,823)
(b) Staff costs:				
Contributions to defined contribution retirement plan	(3,473)	(1,786)	(1,890)	(1,287)
Salaries, wages and other benefits	(53,086)	(61,501)	(25,276)	(40,147)
	(56,559)	(63,287)	(27,166)	(41,434)
(c) Other items:				
Amortisation				
-lease prepayments	(2,866)	(2,790)	(1,103)	(1,395)
-intangible assets	(837)	(186)	(544)	(101)
	(3,703)	(2,976)	(1,647)	(1,496)
Depreciation				
-property, plant and equipment	(7,182)	(4,950)	(3,754)	(4,069)
Operating lease charges				
-hire of office rentals	(9,289)	(7,301)	(5,491)	(2,683)
-hire of cars	(1,425)	(941)	(993)	(496)
	(10,714)	(8,242)	(6,484)	(3,179)

6 Taxes

The statutory corporate income tax rate of the Company is 25% (2011: 25%).

Deferred tax assets have not been recognised in respect of the following items:

In thousands of RMB	As at 30 June 2012
Deductible temporary differences	1,184,321
Cumulative unutilised tax losses	428,569
Total	1,612,890

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilise the benefits therefrom.

Under current tax legislation, the above deductible tax losses will expire in the following years:

In thousands of RMB	As at 30 June 2012
2013	84,064
2014	51,523
2015	92,479
2016	-
2017	200,503
Total	428,569

7 Property, plant and equipment

In thousands of RMB	Leasehold improvements	Equipment	Construction in progress	Total
Cost				
Balance at 1 January 2012	8,048	29,827	287,438	325,313
Additions for the period	70	11,980	371,180	383,230
Balance at 30 June 2012	8,118	41,807	658,618	708,543
Depreciation				
Balance at 1 January 2012	(5,150)	(9,781)	-	(14,931)
Depreciation for the period	(2,022)	(5,160)	-	(7,182)
Balance at 30 June 2012	(7,172)	(14,941)	-	(22,113)
Carrying amount				
Balance at 1 January 2012	2,898	20,046	287,438	310,382
Balance at 30 June 2012	946	26,866	658,618	686,430

Leased plant and machinery

The Company leases a data centre under a finance lease agreement. As at 30 June 2012, the net carrying amount of leased plant and equipment was RMB 7,680 thousand (2011: RMB 10,937 thousand).

Property, plant and equipment under construction

In 2011, the Company commenced construction of a new factory in Changshu, Jiangsu province and costs incurred up to the reporting date totalled RMB 586,682 thousand (2011: RMB 235,507 thousand).

Included in construction in progress is an amount of RMB 357 thousand, that represents borrowing costs capitalised during the period using a capitalisation rate of 4.10%~6.89%.

8 Intangible assets

In thousands of RMB	Software	Development costs CF11, CF14 and CF1X	Total
Cost			
Balance at 1 January 2012	24,945	361,484	386,429
Additions	4,926	360,160	365,086
Balance at 30 June 2012	29,871	721,644	751,515
Amortisation			
Balance at 1 January 2012	(948)	-	(948)
Amortisation for the period	(837)	-	(837)
Balance at 30 June 2012	(1,785)	-	(1,785)
Carrying amount			
Balance at 1 January 2012	23,997	361,484	385,481
Balance at 30 June 2012	28,086	721,644	749,730

The amortisation of software is included in administrative expenses in the statement of comprehensive income.

Included in capitalised development costs is an amount of RMB 7,246 thousand, that represents borrowing costs capitalised during the period using a capitalisation rate of 4.10%~6.89%.

9 Lease prepayments

In thousands of RMB	
Cost	
Balance at 1 January 2012	268,729
Addition for the period	220,631
Disposal for the period	(268,729)
Balance at 30 June 2012	220,631
Amortisation	
Balance at 1 January 2012	(19,527)
Amortisation for the period	(2,866)
Written back on disposal	20,922
Balance at 30 June 2012	(1,471)
Carrying amount	
Balance at 1 January 2012	249,202
Balance at 30 June 2012	219,160

As at 30 June 2012, the Company's lease prepayments represented the lease prepayments of land use rights located in Changshu, Jiangsu Province.

Lease prepayments of land use right located in Wuhu, Anhui Province with a carrying amount of RMB 247,807 thousand were disposed of during the three months period ended 30 June 2012, resulting in a gain on disposal of RMB 10,586 thousand, which is included in "other income" in the condensed statement of comprehensive income.

10 Other receivables

In thousands of RMB	Note	At 30 June 2012	At 31 December 2011
Receivables due from third parties		85,747	35, 977
Receivables due from employees		43,988	46,358
Receivables due from related parties	21(c)	746	757
		130,481	83,092
Less: allowance for doubtful debts		(396)	(396)
		130,085	82,696
Non-current		30,097	31,020
Current		99,988	51,676
		130,085	82,696

11 Pledged deposits

Bank deposits of RMB 57,852 thousand (as at 31 December 2011: RMB 45,753 thousand) have been pledged to a commercial bank in China as security for a letter of credit facility. The pledge in respect of the bank deposits will be released when the letter of credit facility expires in July 2013.

12 Available-for-sale financial assets

Available-for-sale financial assets of RMB 370 million as at 30 June 2012 represented the short-term investments (maturity period within one month) which were issued by a licensed trust company in China.

13 Cash and cash equivalents

All the balances of cash and cash equivalents as at 30 June 2012 are cash on hand and call deposits at bank.

14 Paid-in capital

In thousands of RMB	At 30 June 2012	At 31 December 2011
Wuhu Chery	2,115,920	1,740,920
Quantum (2007) LLC.	2,115,920	1,740,920
	4,231,840	3,481,840

15 Finance lease liabilities

As at 30 June 2012, the Company had obligations under finance leases repayable as follows:

In thousands of RMB	30 June 2012			31 December 2011		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	6,025	357	5,668	6,025	535	5,490
Between one and five years	2,510	39	2,471	5,522	172	5,350
	8,535	396	8,139	11,547	707	10,840

16 Loans and borrowings

In thousands of RMB	At 30 June 2012	At 31 December 2011
Denominated in:		
RMB	281,000	80,000
USD	211,422	-
	492,422	80,000

17 Other payables

In thousands of RMB	At 30 June 2012	At 31 December 2011
Other payables to third parties	290,084	348,302

All the balances are repayable on demand.

18 Financial instruments

Financial risk management

The Company's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended 31 December 2011.

19 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows.

In thousands of RMB	At 30 June 2012	At 31 December 2011
Within 1 year	17,995	17,735
After 1 year but within 5 years	18,841	341
	36,836	18,076

20 Capital commitments

Capital commitments outstanding not provided for in the financial statements:

In thousands of RMB	At 30 June 2012	At 31 December 2011
Contracted for	1,795,829	1,710,817
Authorised but not contracted for*	514,668	582,336
	2,310,497	2,293,153

* The authorised but not contracted for capital commitment represented the research and development costs and construction costs for the factories in Changshu to be incurred. The Board of Directors has authorised management to approve these commitments.

21 Related parties

(a) Parent and ultimate controlling party

As at 30 June 2012 and 2011, the Company was jointly-controlled by Wuhu Chery and Quantum (2007) LLC. Chery Automobile Co., Ltd. ("Chery Auto") is the ultimate parent company of Wuhu Chery and Israel Corporation Ltd. is the ultimate parent company of Quantum (2007) LLC.

The following is a summary of principal related parties transactions carried out by the Company with the related parties for the periods presented.

(b) Transactions with key management personnel

In thousands of RMB	For the six months ended		For the three months ended	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
Salaries, benefit and contribution to the defined contribution plan	6,273	6,554	2,168	4,687

21 Related parties (continued)

(c) Other related party transactions

The Company entered into the following material related party transactions:

	For the six months ended		For the three months ended	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
Rental expenses paid to Chery Auto's subsidiary	15	26	15	26
Service fee paid to joint venture invested by Chery Auto	8,729	2,361	8,729	1,954
Purchase from Chery Auto	3,436	40	3,436	40
Travel expense paid on behalf of Shanghai SICAR	259	-	259	-

The outstanding balances arising from the above transactions at the end of the reporting periods are as follows:

In thousands of RMB	At 30 June 2012	At 31 December 2011
Amounts due from related parties		
- prepayments to joint venture invested by Chery Auto	3,436	1,559
- other receivables from Chery Auto's subsidiary	5	5
- other receivables from Israel Corporation Ltd.	741	752
	4,182	2,316

21 Related parties (continued)

(d) Relationship with the related parties under the transactions stated in 21(c) above

Name of the entities	Relationship with the Company
Wuhu Chery Car Rental Co., Ltd	Chery Auto's subsidiary
Atech Automobile (Wuhu) Co., Ltd	Joint venture invested by Chery Auto
Shanghai SICAR Vehicle Technology Development Co., Ltd ("Shanghai SICAR")	Joint venture invested by Chery Auto
Futuris Automotive Interior Systems Co., Ltd	Joint venture invested by Chery Auto

22 Subsequent events

On 23 July 2012, the Company entered into a consortium financing arrangement with a group of banks. Under the arrangement, the Company can draw down loans in either RMB or USD, up to an aggregate maximum principal amount of RMB 3 billion and loan period within 10 years. The RMB loan bears the 5-year interest rate quoted by the People's Bank of China from time to time and USD loan bears an interest rate of LIBOR+4.8% per annum. The repayment is based on the instalments schedule as set out in the agreement from the date 36 months after the first draw down date. Up to the issuance of the condensed interim financial information, the Company had drawn down a loan of RMB 21 million.