

Israel Corporation Ltd.

Periodic Report

As at September 30, 2012

(UNAUDITED)

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Israel Corporation Ltd.

Report of the Corporation's Board of Directors

For the Nine Months Ended September 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 subsidiaries 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 September 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 September 30, 2011 and the periodic report for 2011.

FINANCIAL POSITION

- The total assets, as at September 30, 2012, amounted to about \$15,849 million, compared with about \$15,331 million, as at September 30, 2011, and compared with about \$15,537 million, as at December 31, 2011.
- The current assets net of current liabilities, as at September 30, 2012 amounted to about \$2,139 million, compared with of about \$1,548 million as at September 30, 2011, and compared with about \$414 million, as at December 31, 2011.

Israel Corporation Ltd.

FINANCIAL POSITION (Cont.)

- The balance of the non-current assets, as at September 30, 2012 amounted to about \$10,314 million, compared with about \$9,571 million as at September 30, 2011, and compared with about \$9,889 million, as at December 31, 2011.
- The non-current liabilities, as at September 30, 2012, amounted to about \$7,987 million, compared with about \$6,878 million, as at September 30, 2011, and compared with about \$6,136 million, as at December 31, 2011.
- The total sales for the nine-month and the three-month periods ended September 30, 2012 amounted to about \$8,917 million and about \$3,092 million, respectively, compared with about \$8,803 million and about \$3,080 million, respectively, for the corresponding periods ended September 30, 2011.
- The total equity as at September 30, 2012 amounted to about \$4,466 million and the total equity attributable to the owners of the Corporation amounted to about \$2,547 million, compared with total equity of \$4,241 million and total equity attributable to the owners of the Corporation of \$2,537 million as at September 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. In July 2012, the Corporation committed to Chery Automobile Co. Ltd. (hereinafter – “Chery”) (which holds 50% of the share capital of Qoros) to pay it half of any amount it will be required to pay 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 11.

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.

Israel Corporation Ltd.

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 participation in 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”)

I.C. Power executed a financial close for receipt of bank financing, in the amount of \$591 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 13.

Better Place Inc. (hereinafter – “Better Place”)

Subsequent to the date of the report, in October 2012, the Corporation's Board of Directors approved an investment of up to about \$67 million in Better Place as part of an additional round of raising financing Better Place is carrying on. As part of the additional fundraising round, Better Place is seeking to raise at least \$100 million from its shareholders against issuance of convertible notes. In November 2012, the Company invested about \$33 million (out of a total amount of about \$67 million that it committed to invest). For additional details – see Note 12.A.5 to the financial statements.

RESULTS OF OPERATIONS

The Corporation finished the third quarter of the period of the report with income allocable to the owners of the Corporation of about \$159 million, compared with income of about \$151 million (after adjustment, see Notes 3A to the financial statements (hereinafter – “the Adjustment”)) in the corresponding quarter last year.

The Corporation finished the period of the report (January – September) with income allocable to the owners of the Corporation of about \$160 million, compared with income of about \$206 million (after Adjustment) in the corresponding period last year.

Set forth below are the factors which impacted the results of operations in the period July – September 2012:

- ICL finished the third quarter of the period of the report with income of about \$395 million, compared with income of about \$436 million in the corresponding quarter last year.

Israel Corporation Ltd.

RESULTS OF OPERATIONS (Cont.)

- Oil Refineries Ltd. (hereinafter – “ORL”) finished the third quarter of the period of the report with a loss of about \$21 million, compared with a loss of about \$38 million (after adjustment) in the corresponding quarter 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 third quarter of the period of the report with a loss of about \$16 million compared with a loss of about \$22 million (after adjustment) in the corresponding quarter last year.

- ZIM finished the third quarter of the period of the report with income of about \$16 million, compared a loss of about \$66 million in the corresponding quarter last year.

ZIM’s income in the third quarter of the period of the report, without the impact of the debt arrangement on the results, amounted to about \$33 million, compared with a loss of about \$85 million in the corresponding quarter last year.

- I.C. Power Ltd. finished the third quarter of the period of the report with income of about \$12 million, compared with income of about \$18 million in the corresponding quarter last year.
- Tower finished the third quarter of the period of the report (in accordance with IFRS) with a loss of about \$23 million, compared with income of about \$7 million in the corresponding quarter last year.
- Better Place finished the third quarter of the period of the report with a loss of about \$54 million, about the same as in the corresponding quarter last year (after offset of interest to the preferred shareholders).
- Qoros finished the third quarter of the period of the report with a loss of about \$21 million, compared with a loss of about \$13 million in the corresponding quarter last year.

Set forth below are the factors which impacted the results of operations in the period January – September 2012:

- ICL finished the period of the report with income of about \$1,091 million, compared with income of about \$1,142 million in the corresponding period last year.
- ORL, which applies IFRS 9 (2010) in its financial statements, finished the period of the report with a loss of about \$126 million, compared with a loss of about \$1 million (after adjustment) in the corresponding period last year.

Without the impact of application of IFRS 9 (2010), ORL finished the period of the report with a loss of about \$125 million, compared with a loss of about \$8 million (after adjustment) in the corresponding period last year.

- ZIM finished the period of the report, with a loss of about \$194 million, compared with a loss of about \$245 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 \$164 million, compared with a loss of about \$253 million in the corresponding period last year.

- I.C. Power finished the period of the report with income of about \$38 million, compared with income of about \$37 million in the corresponding period last year.
- Tower finished the period of the report (in accordance with IFRS) with a loss of about \$42 million, compared with a breakeven in the corresponding period last year.

Israel Corporation Ltd.

RESULTS OF OPERATIONS (Cont.)

- Better Place LLC (hereinafter – “Better Place”) finished the period of the report with a loss of about \$153 million, compared with a loss of about \$105 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 \$53 million, compared with a loss of about \$95 million in the corresponding period last year.
- The net financing expenses in the consolidated report in the period of the report amounted to about \$308 million, compared with about \$265 million in the corresponding period last year.

The increase in the net financing expenses stems mainly from an increase in the total credit and the interest rate, as well as from the impact of the change in the fair value of derivatives in respect of the debt arrangement in a subsidiary.

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

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

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
	\$ Millions			
ICL	207	229	572	599
ORL	(6)	*(8)	(46)	*(3)
ZIM	16	(66)	(194)	(245)
I.C. Power	14	13	42	39
Tower	(7)	2	(13)	–
Better Place	(12)	(17)	(42)	(33)
Qoros	(11)	(7)	(26)	(48)

(*) The contribution of ORL for the nine-month and three-month periods ended September 30, 2011 is after adjustment.

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

ISRAEL CHEMICALS LTD.

Results of operations in the period July – September 2012

The net income in the third quarter of the period of the report amounted to about \$395 million, compared with about \$436 million in the corresponding quarter last year.

The total sales in the third quarter of the period of the report amounted to about \$1,817 million, compared with about \$1,898 million in the corresponding quarter last year – a decrease of about 3%. This decrease derives mainly from a decrease in the selling prices that gave rise to a decline of about \$20 million and by the negative impact of the change in the currency exchange rates (mainly the euro versus the dollar) that caused a decline in sales of about \$72 million. On the other hand, the decrease was partly offset by an increase in the quantities sold that gave rise to an increase in sales of about \$7 million and consolidation of the financial statements of companies and activities acquired during 2011, which increased the sales by about \$4 million.

Israel Corporation Ltd.

ISRAEL CHEMICALS LTD. (Cont.)

Results of operations in the period July – September 2012 (Cont.)

The rate of the gross profit on the sales in the quarter amounted to about 43%, compared with about 46% in the corresponding quarter last year. The decline in the gross profit rate compared with the corresponding quarter last year stems mainly from a decrease in the selling prices, a decrease in the quantities sold an increase in the raw material and energy prices and an increase in the other operating expenses.

The rate of the operating income out of the total sales was about 27%, compared with about 29% in the corresponding quarter last year. The decrease in the operating income was mainly a result of the impact of the decline in the gross profit, as stated above.

The net financing expenses in the third quarter amounted to about \$13 million, compared with financing expenses of about \$16 million, in the corresponding quarter last year. The decrease in the financing expenses in the quarter compared with last year derived mainly from an increase in revenues in the period from transactions in financial derivatives. On the other hand, there was an increase in the expenses in the quarter due to revaluation and interest in respect of long-term financial liabilities (mainly pension).

Results of operations in the period January – September 2012

ICL finished the period of the report with net income of about \$1,091 million, compared with net income of about \$1,142 million in the corresponding period last year.

The ICL Group's sales in the period of the report amounted to about \$5,334 million, compared with about \$5,355 million in the corresponding period last year. The decrease stems from a decline in the quantities sold and by a negative impact of a change in the currency exchange rates (mainly the euro versus the dollar). On the other hand, the decrease was partly offset by an increase in the sale prices and from consolidation of the financial statements of companies and activities acquired during 2011, which increased the sales by about \$125 million.

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 26%, compared with about 27% last year. The decrease in the marginal operating income stems mainly from the decrease in the gross profit, as stated above, offset by a decline in the selling, marketing, administrative and general expenses.

In the period of the report, there was a decrease of about \$1 million in ICL's net financing expenses, compared with the corresponding period last year. The decrease in the financing expenses in the period compared with last year derived mainly from a decline in the expenses in the period from transactions in financial derivatives and revaluation of net short-term financial liabilities. On the other hand, an increase in the expenses in the period was recorded due to revaluation and interest in respect of long-term liabilities (mainly pension).

The taxes on income in the period of the report amounted to about \$235 million, compared with taxes on income of about \$261 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.

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ISRAEL CHEMICALS LTD. (Cont.)

The business environment

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 45% of ICL's sales in the period of the report derives from manufacturing performed outside of Israel.

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

In October 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 season¹. Based on the report, an additional decline is expected with respect to the inventory of grains for the annual consumption to the level of 18.5% at the end of the 2012/2013 agricultural year, compared with 20.4% 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, the bio-technological developments and the worldwide macro-economic situation. 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 run².

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.

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 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

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ISRAEL CHEMICALS LTD. (Cont.)

The business environment (Cont.)

The third quarter of 2012 was characterized by low demand in the potash market compared with the corresponding quarter last year, mainly due non-renewal of the potash supply contracts in India and China and the ongoing economic crisis in Europe. Notwithstanding the decline in the overall scope of the worldwide potash trade compared with the corresponding period last year, the total shipments of ICL Fertilizers were about the same as in the corresponding period last year. The decrease in the shipments to China was offset mainly by an increase in the shipments to Brazil and India. During the third quarter and the month of October of 2012, shipments of potash to India were completed under the supply contracts signed in the second half of 2011, which had been delayed beyond the shipment dates set in the agreement. The Brazil market was characterized by favorable demand for potash and the total imports in the first nine months of the year were roughly the same as the record set last year.

Conclusion of the existing contracts and delay in the renewal of new contracts in India and China is expected to significantly decrease the potash shipments in the fourth quarter compared with the fourth quarter of 2011³.

In the market for phosphate fertilizers in India there was a decline in demand due to an increase in the fertilizer price to the final customer due to a decline in the subsidies per ton of product, the devaluation of the exchange rate of the rupee against the dollar and lateness with respect to the onset of the monsoon rains. In the last few weeks, an increase in demand is visible along with stability in the market and onset of the rain in India.

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 worldwide economic slowdown, primarily the slowdown in the growth rate in China in the period of the report, has led to a decline fall in demand for bromine-based flame retardants, mainly in the market for electronics and construction products. In addition, there has been of a decline in demand for bromine in China that is also accompanied by a decrease in the sale prices in this market. In the period of the report, there was an increase in demand for the clear solutions for oil and gas drillings as a result of an increase in the number of drillings in the Gulf of Mexico. 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.

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 ICL Performance Products' main raw materials, availability of the raw materials and fluctuations of the energy prices. These market conditions create a competitive market situation for the products of ICL Performance Products. In addition, some of ICL Performance Products' target markets are characterized by seasonality, particularly in the area of flame retardants and fire extinguishment products, as well as due to the large number of holidays in December, the fourth quarter is characterized by lower profit rates. Further to the trend that has recently characterized the global markets, the third quarter was also impacted by an air of uncertainty with respect to the global economic stability, political instability in the Middle Eastern countries and the slow recovery of the U.S. markets. The slowdown in the euro currency countries and in the developing markets, including India and China, has continued to unfavorably impact the exports from the United States and Germany.

consumers in these markets. 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.

³ 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 markets in India and China, 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 Corporation Ltd.

ISRAEL CHEMICALS LTD. (Cont.)

In the third quarter of 2012, the trend of declining prices in the fertilizers' market continued, which constitutes raw material in the market for phosphate-based products and which impacted mainly the level of prices of phosphate-based products in the European markets, while the level of prices in the U.S. markets remained stable.

Marine transportation costs constituted about 7% of ICL's total operating costs in the period of the report. In recent 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 third quarter of 2012 was 846 points, constituting a decline of about 45% compared with the corresponding quarter last year, and a decline of about 17% compared with the average index for the second quarter of 2012, which was 1,016 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 September 2012 amounted to about 50%. In addition, with reference to the use potential in the third quarter, the rate of the decline is about 44%. (For additional details – see Note 6F to the financial statements).

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 rejected 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. Subsequent to the date of the report, on November 25, 2012, DSW signed a compromise agreement with the partners in the Yam Thetys well that was intended to settle the disputes that arose between the parties as a result of the notification of the Yam Thetys Partnership. Pursuant to the compromise agreement, the Yam Thetys partners agreed to extend the Yam Thetys agreement up to September 30, 2017. 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.
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.

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ISRAEL CHEMICALS LTD. (Cont.)

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

3. (Cont.)

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 be completed in the middle of 2015 and its total cost is estimated at about \$320 million.
5. 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. On October 16, 2012, the Court approved the revised compromise arrangement. In the revised compromise arrangement the amount of financing for the educational activities was increased to NIS 1 million. For additional details – see Note 22.B.2.b.4 to the annual financial statements.
6. 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 appendix signed 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.
7. Subsequent to the date of the financial statements, on November 18, 2012, the Board of Directors of a subsidiary of ICL approved a plan whereby early retirement, prior to the date provided by law, was approved for a number of the subsidiary's employees. In the statement of income for the fourth quarter of 2012, an expense will be included, in the amount of about \$20 million, in respect of the early retirement plan. On the same date, the Board of Directors of a subsidiary of ICL approved the collective bargaining agreement of the employees of Bromine Compounds and the employees of Periclase for a period of 5 years.
8. Subsequent to the date of the report, on November 25, 2012, DSW signed a short-term gas supply agreement with the partners in the Tamar Partnership. For additional details – see Note 7F to the financial statements.

OIL REFINERIES LTD.

Results of operations in the period July – September 2012

ORL, which applies IFRS 9 (2010) in its financial statements, completed the third quarter of the period of the report with a loss of about \$21 million, compared with a loss of about \$38 million (after adjustment) in the corresponding quarter last year. Israel Corporation does not apply IFRS 9 (2010) in its financial statements. Without the impact of IFRS 9 (2010), ORL finished the third quarter with a loss of about \$16 million, compared with a loss of about \$22 million (after adjustment) in the corresponding quarter last year.

The total sales in the third quarter of the period of the report totaled about \$2,398 million, compared with about \$2,746 million in the corresponding quarter last year. The decline in the total sales stemmed mainly from a decrease 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 \$923 in the third quarter of the period of the report, compared with about \$931 in the corresponding quarter last year.

The operating income in the third quarter of the period of the report amounted to about \$25 million, compared with an operating loss of about \$12 million in the corresponding quarter last year. The increase in the operating income derived mainly from an increase in the accounting margins in the fuels and petrochemical segments, which was offset by a decline in the other revenues, an increase in the operating expenses and a decline in the total sales.

Results of operations in the period January – September 2012

ORL completed the period of the report with a loss of about \$126 million, compared with a loss of about \$1 million (after adjustment) in the corresponding period last year. Without the impact of IFRS 9 (2010), ORL finished the period of the report with a loss of about \$125 million, compared with a loss of about \$8 million (after adjustment) in the corresponding period last year.

The total sales in the period of the report amounted to about \$7,298 million, compared with about \$7,456 million in the corresponding period last year. In the fuels' segment, there was an increase in the total sales that 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 \$953 in the period of the report, compared with about \$920 in the corresponding period last year. In the local market, in the period of the report, there was an increase of about 22% 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 total sales in the trade segment declined by about \$136 million since it was not worthwhile to execute trade transactions. The total sales in the polymers decreased by about \$104 million due to a fall in the selling prices.

The operating loss in the period of the report amounted to about \$40 million, compared with operating income of about \$93 million in the corresponding period last year. The decrease in the operating income derived mainly from an increase in the production expenses in the fuels' segment and a drop in the other revenues.

The net financing expenses (without the impact of IFRS 9 (2010)), in the period of the report amounted to about \$112 million, compared with net financing expenses of about \$83 million in the corresponding period last year. The financing expenses increased in the period of the report mainly due to an increase in the interest on loans and debentures.

Israel Corporation Ltd.

OIL REFINERIES LTD. (Cont.)

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

	<u>July–September</u>		<u>January–September</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Neutralized margin	39.4	21.0	38.4	19.2
Neutralizations in the fuels' segment	<u>3.9</u>	<u>(4.2)</u>	<u>(4.0)</u>	<u>12.9</u>
Accounting margin	<u>43.3</u>	<u>16.8</u>	<u>34.4</u>	<u>32.1</u>

Other developments in the period of account and thereafter

- As at September 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. 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 i1BBB+ from i1A–, with a stable rating outlook.
- 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.
- Subsequent to the date of the report, on November 25, 2012, ORL signed a short-term gas supply agreement with the partners in the Tamar Partnership. For additional details – see Note 7F to the financial statements.

Israel Corporation Ltd.

ZIM INTEGRATED SHIPPING SERVICES LTD.

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

	Nine Months Ended September 30		Three Months Ended September 30	
	2012	2011	2012	2011
\$ Millions				
Revenues from shipping and accompanying services	2,980	2,885	1,064	973
Costs of shipping and accompanying services	(2,813)	(2,822)	(928)	(989)
Operating depreciation	(117)	(122)	(39)	(41)
Gross profit (loss)	50	(59)	97	(57)
Other operating income, net	18	26	15	28
Administrative and general expenses	(103)	(116)	(31)	(34)
Operating income (loss)	(35)	(149)	81	(63)
Financing expenses, net	(145)	(94)	(60)	-
Share in income of associated companies	6	18	2	3
Taxes on income	(15)	(13)	(6)	(6)
Loss for the period	(189)	(238)	17	(66)
<u>Attributable to:</u>				
Holders of non-controlling interests	5	7	1	-
The owners of the Corporation	(194)	(245)	16	(66)
	(189)	(238)	17	(66)

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

	Nine Months Ended September 30		Three Months Ended September 30	
	2012	2011	2012	2011
\$ Millions				
Cash provided by operating activities	45	48	102	23
Cash provided by investing activities	8	89	24	51
Cash used in financing activities	(73)	(318)	(109)	(92)
Net increase (decrease) in cash and cash equivalents	(20)	(181)	17	(18)
Cash and cash equivalents at end of the period	174	309	174	309
Proceeds from sale of ships and equipment, other property, plant and equipment and intangible assets	44	39	33	34
Total depreciation, amortization and decline in value	138	147	44	47

Israel Corporation Ltd.

ZIM INTEGRATED SHIPPING SERVICES LTD. (Cont.)

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

	As at September 30	
	2012	2011
	\$ Millions	
Total financial liabilities (1)	2,548	2,593
Total monetary assets (2)	182	340
Total equity attributable to the owners	198	500
Total assets	3,353	3,728
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:

	Nine Months Ended September 30 2012
	\$ Millions
	Balance as at January 1, 2012
Loss for the period	(194)
Reserve in respect of transactions with controlling shareholders	14
Issuance of share capital	25
Other comprehensive income for the period	<u>2</u>
Balance as at September 30, 2012	<u>198</u>

Brief description of ZIM's results:

Results of operations in the period July – September 2012

The income in the quarter attributable to ZIM's owners, amounted to about \$16 million, compared with a loss of about \$66 million in the corresponding quarter last year.

ZIM's revenues in the third quarter of the report amounted to about \$1,064 million, compared with about \$973 million in the corresponding quarter last year – an increase of about 9%. 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 other revenues. The quantities shipped decreased by about 4.5% from about 646 thousand containers to about 617 thousand containers. On the other hand, the average shipping fees per container increased by about 10% – from about \$1,310 per container to about \$1,444 per container.

In the third quarter of the report, ZIM's operating expenses amounted to about \$928 million, compared with about \$989 million in the corresponding quarter last year – a decrease of about 6%. The decrease in the operating expenses stems mainly from a decrease in the fuel expenses, in the amount of about \$49 million, a decrease in the cargo handling expenses, in the amount of about \$34 million, and expenses relating to port services, in the amount of about \$12 million, which was offset by an increase in the expenses relating to uncompleted voyages, in the amount of about \$45 million.

Israel Corporation Ltd.

ZIM INTEGRATED SHIPPING SERVICES LTD. (Cont.)

Brief description of ZIM's results: (Cont.)

Results of operations in the period July – September 2012 (Cont.)

In the third quarter, the administrative and general expenses decreased by about 10% 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 third quarter amounted to about \$81 million, compared with an operating loss of about \$63 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 \$91 million and a decrease in the operating expenses, in the amount of about \$61 million.

ZIM's EBITDA in the third quarter amounted to about \$125 million, compared with negative EBITDA of about \$16 million in the corresponding quarter last year.

ZIM's net financing expenses in the third quarter increased by about \$60 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 \$38 million, and a change in exchange rate and linkage expenses, in the amount of about \$22 million.

Results of operations in the period January – September 2012

The loss in the period of the report attributable to ZIM's owners amounted to about \$194 million, compared with a loss of about \$245 million in the corresponding period last year.

ZIM's revenues in the period of the report amounted to about \$2,980 million, compared with about \$2,885 million in the corresponding period last year. The increase in the total revenues stemmed mainly from an increase in uncompleted voyages, in the amount of about \$90 million. In the period of the report, the quantities shipped decreased compared with the corresponding period last year by about 0.5%, from about 1,797 thousand containers to about 1,790 thousand containers. On the other hand, the average shipping price per container increased by about 1% from about \$1,325 per container to about \$1,334 per container.

In the period of the report, ZIM's operating expenses amounted to about \$2,813 million, compared with about \$2,822 million in the corresponding period last year – a decrease of about 0.2%. The decrease in the operating expenses stems mainly from an increase in fuel expenses, in the amount of about \$112 million, stemming mostly from a decrease in expenses relating to uncompleted voyages, in the amount of about \$26 million, and expenses of the subsidiaries and other expenses, in the amount of about \$42 million, offset by an increase in the fuel expenses, in the amount of about \$63 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 \$35 million, compared with a loss of about \$149 million in the corresponding period last year. The decrease in the operating loss stems mainly from an increase in the revenues, in the amount of about \$95 million, a decrease in the administrative and general expenses, in the amount of about \$13 million and a decrease in the operating expenses, in the amount of about \$9 million.

ZIM INTEGRATED SHIPPING SERVICES LTD. (Cont.)

Results of operations in the period January – September 2012 (Cont.)

ZIM's EBITDA⁴ in the period of the report amounted to about \$102 million, compared with negative EBITDA of about \$3 million in the corresponding period last year.

ZIM's net financing expenses in the period of the report increased by about \$51 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 and a change in the exchange rate and linkage expenses, which was offset by a decrease in the loss from hedging transactions.

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. On September 20, 2012, Maalot notified that the rating (ilB), with a negative rating outlook remains unchanged due to the concern regarding ZIM's ability to meet the liquidity requirements imposed by the financing banks, which were made stricter as a result of their waiver of most of the accounting covenants up to the end of 2013.
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 on January 1, 2013, two months from the publication date of a class exemption with respect to operating arrangements covering international shipping (hereinafter – “the Class Exemption”), which was published on October 31, 2012. As a result of the regulatory changes, commencing from January 1, 2013, a new regulatory regime will apply with respect to arrangements between shipping companies in connection with marine shipping services to and from Israel, whereby operating arrangements (known as consortium arrangements) that meet the conditions of the Class Exemption will be exempt from obtaining approval from the Restrictive Business Practices Court, while the rest of the arrangements between the shipping companies will require confirmation in accordance with the regular restrictive business practices laws. Regarding existing arrangements, the transitional rules in the Class Exemption give a company a period of 9 month, ending on September 30, 2013, to arrange, to the extent necessary, arrangements the company entered into up to December 31, 2012 and that met the conditions of the statutory exemption cancelled. ZIM is making preparations in contemplation of entry of the regulatory changes into effect – both with respect to the existing arrangements as well as in connection with ZIM's future arrangements.
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 The EBITDA is calculated as operating income or loss plus depreciation and amortization.

Israel Corporation Ltd.

ZIM INTEGRATED SHIPPING SERVICES LTD. (Cont.)

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

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.

The conditions and financial covenants, as stated, include update⁵ 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.

⁵ 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.

Israel Corporation Ltd.

ZIM INTEGRATED SHIPPING SERVICES LTD. (Cont.)

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

9. ZIM examines on a current ongoing basis the scope of the sources expected from its business activities, the sale of assets and financing transactions, against the needs deriving mainly from debt service, investments, and the financial covenants it is required to fulfill. As at the signing date of the financial statements, ZIM estimates that it will comply with its various liabilities on a timely basis. Commencing from the start of the 2009 debt arrangement, ZIM has had a significant improvement in its operating results and, at the same time, in its results compared with other shipping companies. Nonetheless, in light of the high volatility in the market conditions, in general, and in the shipping industry, in particular, which impact ZIM's business plans, ZIM may be required to request from its financing parties, the shipyards and the ship owners leasing ships to ZIM, to receive relaxations and/or certain flexibility in connection with its liabilities.
10. ZIM has pending orders for construction of ships from two shipyards. The latest receipt date of the ships pursuant to the orders is during 2015. Based on the existing agreement with one of the shipyards, the next payment date for an advance deposit, in the amount of about \$137 million, falls in January 2013. In addition, the payment dates of additional advance deposits, in the amount of about \$51 million fall in 2013. Based on the existing acquisition agreement with the second shipyard, the next date for an advance deposit, in the amount of about \$47 million, falls in the fourth quarter of 2013, assuming ZIM notifies up to the end of January 2013 that it is interested in carrying out the contract.

As at September 30, 2012, the advance deposits paid to the shipyards amount to about \$235 million.

ZIM is carrying on negotiations with the two shipyards regarding the delivery date of the ships, and in the estimation of ZIM's Management and its Board of Directors, based on the discussions underway and the past experience there is a good chance ZIM will succeed in reaching understandings with respect to an additional postponement of the delivery date and, in turn, postponement of the timetables for payment of the additional advance deposits, in such a manner that there will be no additional advance deposits that ZIM will be required to pay to the shipyards during a period of at least 12 months from the date of the report.

I.C. POWER LTD.

Results of operations in the period July – September 2012

I.C. Power finished the third quarter of the period of the report with income of about \$12 million, compared with income of about \$18 million in the corresponding quarter last year. The decline stems mainly from recording of non-recurring income, in the amount of \$13 million in O.P.C. from a currency hedge transaction as part of the construction project, in the third quarter of last year. After eliminating the financing expenses to Israel Corporation the net income for the period was about \$14 million, compared with income of about \$13 million in the corresponding period last year.

I.C. Power's total revenues in the third quarter of the period of the report amounted to about \$146 million, compared with about \$122 million in the corresponding quarter last year.

The operating income in the third quarter amounted to about \$27 million, compared with operating income of about \$15 million in the corresponding quarter last year.

I.C. Power's proportionate EBITDA (the proportionate amount of the EBITDA of each of the operating investee companies) in the third quarter of the period of the report amounted to about \$49 million, compared with proportionate EBITDA of about \$38 million in the corresponding quarter last year.

Israel Corporation Ltd.

I.C. POWER LTD. (Cont.)

Results of operations in the period January – September 2012

I.C. Power finished the period of the report with net income of about \$38 million, compared with income of about \$37 million in the corresponding period last year. After eliminating the financing expenses to Israel Corporation the net income for the period amounted to about \$42 million, compared with income of about \$39 million in the corresponding period last year. As noted, in the corresponding period last year, non-recurring income was included in the amount of about \$13 million.

I.C. Power's total revenues in the period of the report amounted to about \$419 million, compared with about \$399 million in the corresponding period last year.

I.C. Power's proportionate EBITDA in the period of the report amounted to about \$138 million, compared with proportionate EBITDA of about \$131 million in the corresponding period last year.

As at the date of the report, I.C. Power's net consolidated debt (excluding the loan from Israel Corporation) amounted to about \$938 million, compared with a net consolidated debt of about \$443 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 \$833 million, compared with a net proportionate debt of about \$435 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.

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

1. Commencement of the commercial activities of the new power station on the Kallpa site in Peru (combined closed cycle) in August 2012.
2. 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.
3. First-time consolidation of a subsidiary in Chile.
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.
2. In January 2012, a rating of AA3 with a negative 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.

Israel Corporation Ltd.

I.C. POWER LTD. (Cont.)

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

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. Subsequent to the date of the report, on November 25, 2012, O.P.C. signed a short-term gas supply agreement with the partners in the Tamar Partnership. For additional details – see Note 7F to the financial statements.
5. A subsidiary of I.C. Power executed a financial close for receipt of bank financing, in the amount of \$591 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 12 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. The financial close was executed in two stages: during August 2012 a financial close was executed, in the amount of \$534 million, from 11 banks and during September 2012 one of the banks increased the amount of the financing and an additional bank joined for a total amount of financing of \$591 million.

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.

6. 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 September 30, 2012, Kallpa had invested about \$364 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 September 30, 2012, O.P.C. had invested about \$388 million in the project. Up to the publication date of this report, about 95% of the project had been completed. Netivei Gas completed connection of the power station to the national gas distribution network. At the same time, Israel Electric Company is almost finished constructing the power line that connects the power station to the national electricity network.
- C. In November 2011, CDA, a subsidiary of Inkia, signed an agreement for construction of a hydroelectric power station. As at September 30, 2012, CDA had invested about \$160 million in the project.

Israel Corporation Ltd.

TOWER SEMICONDUCTOR LTD.

In the third quarter of the period of the report, Tower's loss (pursuant to IFRS) amounted to about \$23 million, compared with income of about \$7 million in the corresponding quarter last year.

The total sales in the third quarter of the period of the report amounted to about \$155 million, constituting a decrease of about 12% compared with the corresponding quarter last year.

Tower finished the period of the report (pursuant to IFRS) with a loss of about \$42 million, compared with a breakeven in the corresponding period last year.

In the period of the report, Tower's sales amounted to about \$491 million, compared with about \$436 million in the corresponding period last year – an increase of about 13%. The gross profit in the period of the report amounted to about \$70 million, compared with gross profit of about \$67 million in the corresponding period last year.

The financing expenses (pursuant to IFRS) in the period of the report amounted to about \$38 million, compared with about \$27 million in the corresponding period last year.

BETTER PLACE INC.

Better Place's net loss in the third quarter of the period of the report, including interest to the holders of the preferred shares, amounted to about \$71 million, compared with a loss of about \$66 million in the corresponding period last year.

Better Place's net loss in the period of the report, including interest to the holders of the preferred shares, amounted to about \$203 million, compared with a loss of about \$140 million in the corresponding period last year.

During October 2012, the CEO of Better Place resigned his position as CEO and director and a new CEO and a new CFO were appointed. The new management of Better Place is in a period of reevaluation of the business plans and procedures.

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.

In the third quarter of the period of the report, the net loss amounted to about \$21 million, compared with a loss of about \$13 million in the corresponding quarter last year.

The loss of Qoros in the period of the report amounted to about \$53 million, compared with a loss of about \$95 million in the corresponding period last year.

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

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

Israel Corporation Ltd.

SOURCES OF FINANCING FOR THE CORPORATION AND THE HEADQUARTERS COMPANIES

As at September 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 \$2,654 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 \$107 million.

As at the date of the report, the investments of the Corporation and of the Headquarters Companies in liquid assets amounted to about \$979 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 \$1,568 million.

In the period of the report, the Corporation received long-term loans, in the amount of about \$505 million, and repaid current maturities of long-term loans, in the amount of about \$262 million.

In the period of the report, the Corporation raised the amount of about \$188 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 \$215 million (net of hedging transactions in respect thereof).

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

As at September 30, 2012, the scope of the exposure of the Headquarters Companies to a decline in the shekel exchange rate against the dollar was about \$130 million. The scope of the exposure to a rise in the Consumer Price Index was about \$140 million and to an increase in the Libor interest rate about \$240 million.

Israel Corporation Ltd.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT

Corporation's Consolidated Derivative Positions as at September 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							
<u>Hedging changes in variable LIBOR interest rate on dollar loans (1)</u>								
<u>Up to one year</u>								
CAP options	–	–	–	–	367	–	–	–
FLOOR options	–	–	–	–	367	–	(12)	–
COLLAR transactions	–	–	–	–	135	–	(2)	–
IRS transactions	–	–	–	–	805	–	(21)	–
<u>More than one year</u>								
CAP options	–	–	–	–	21	–	–	–
FLOOR options	–	–	–	–	21	–	–	–
COLLAR transactions	–	–	–	–	235	–	(6)	–
IRS transactions	124	–	(9)	–	864	48	(33)	5
SWAP to dollar liability with variable interest from index-linked liability with fixed interest	–	–	–	–	–	187	–	45
SWAP to dollar liability with variable interest from shekel liability with fixed interest	–	–	–	–	–	25	–	3
SWAP to dollar liability with fixed interest from index-linked liability with fixed interest	–	–	–	–	–	3	–	–
<u>Hedging changes in exchange rate and interest rate on loans</u>								
<u>More than one year</u>								
SWAP to dollar liability with variable interest from index-linked liability with fixed interest	–	–	–	–	–	684	–	115
SWAP to dollar liability with variable interest from shekel liability with fixed interest	–	–	–	–	–	181	–	(12)
SWAP to dollar liability with fixed interest from index-linked liability with fixed interest	–	97	–	3	–	3	–	–
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	–	–	–	–	–	67	–	2

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

Short – liability for payment in variable interest.

Israel Corporation Ltd.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

Corporation's Consolidated Derivative Positions as at September 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							
<u>Hedging changes in the CPI-linked interest rate</u>								
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)	–
<u>Other derivatives in a subsidiary</u>								
<u>More than one year</u>								
Option for early repayment of debentures	–	–	–	–	401	–	132	–
Option issued for lease price of ships	–	–	–	–	–	–	–	(8)
<u>Transactions for hedging fuel prices</u>								
Forward contract up to one year	22	–	–	–	96	–	(11)	–
Collar transactions up to one year	–	–	–	–	115	–	(5)	–
<u>Transactions hedging energy prices and shipping fees</u>								
Up to one year	–	–	–	–	74	–	(15)	–
More than one year	–	–	–	–	23	–	(4)	–
<u>Hedging changes in exchange rates on cash flows (2)</u>								
<u>Up to one year</u>								
<u>Euro/Dollar</u>								
Forward contract	21	–	–	–	197	–	(3)	–
Call options	–	–	–	–	6	–	–	–
Put options	–	–	–	–	7	–	–	–
<u>Shekel/Dollar</u>								
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.

Israel Corporation Ltd.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

Corporation's Consolidated Derivative Positions as at September 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							
<u>Yen/Dollar</u>								
Forward contract	–	–	–	–	17	–	–	–
Call options	–	–	–	–	17	–	–	–
Put options	–	–	–	–	17	–	–	–
<u>Other Forward Contracts</u>								
Dollar / British pound – up to one year	–	–	–	–	–	58	–	–
British pound / euro – up to one year	–	–	–	–	8	–	–	–
Shekel / Japanese yen – up to one year	5	–	–	–	–	–	–	–
Chinese yuan / dollar – more than one year	–	–	–	–	–	67	–	1

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

Short – payment in dollars against the counter currency.

Israel Corporation Ltd.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to changes in interest

Sensitivity to changes in shekel interest linked to the CPI:

Instrument Type	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value \$ millions	Increase (decrease) in fair value	Increase (decrease) in fair value
	\$ millions	\$ millions		\$ millions	\$ millions
	Rise of 1%	Rise of 0.5%		Fall of 0.5%	Fall of 1%
Long-term loans from banks	33	17	(470)	(17)	(36)
Debentures	53	27	(1,640)	(28)	(57)
SWAP transactions from index to dollar*	(40)	(21)	<u>164</u>	<u>21</u>	<u>43</u>
Total	<u>46</u>	<u>23</u>	<u>(1,946)</u>	<u>(24)</u>	<u>(50)</u>

Sensitivity to changes in shekel interest:

Instrument Type	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value \$ millions	Increase (decrease) in fair value	Increase (decrease) in fair value
	\$ millions	\$ millions		\$ millions	\$ millions
	Rise of 1%	Rise of 0.5%		Fall of 0.5%	Fall of 1%
Debentures	9	5	(447)	(5)	(9)
SWAP transactions from fixed shekel interest to dollar*	(12)	(6)	<u>(18)</u>	<u>6</u>	<u>12</u>
Total	<u>(3)</u>	<u>(1)</u>	<u>(465)</u>	<u>1</u>	<u>3</u>

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

Israel Corporation Ltd.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to changes in interest (Cont.)

Sensitivity to changes in Libor interest:

	Increase (decrease) in fair value \$ millions <u>Rise of 1%</u>	Increase (decrease) in fair value \$ millions <u>Rise of 0.5%</u>	Fair value \$ millions	Increase (decrease) in fair value \$ millions <u>Fall of 0.5%</u>	Increase (decrease) in fair value \$ millions <u>Fall of 1%</u>
Instrument Type					
Derivatives in respect of debt arrangement in subsidiary	(1)	(1)	35	1	1
Long-term loans from banks	37	19	(1,258)	(19)	(39)
Debentures	28	14	(634)	(15)	(30)
SWAP transactions from shekel and index to fixed dollar*	12	6	(7)	(6)	(12)
IRS transactions variable to fixed*	21	10	(58)	(10)	(19)
COLLAR transactions*	<u>5</u>	<u>4</u>	<u>(20)</u>	<u>(4)</u>	<u>(6)</u>
Total	<u>102</u>	<u>52</u>	<u>(1,942)</u>	<u>(53)</u>	<u>(105)</u>

Sensitivity to changes in the CPI:

	Increase (decrease) in fair value \$ millions <u>Rise of 10%</u>	Increase (decrease) in fair value \$ millions <u>Rise of 5%</u>	Fair value \$ millions	Increase (decrease) in fair value \$ millions <u>Fall of 5%</u>	Increase (decrease) in fair value \$ millions <u>Fall of 10%</u>
Instrument Type					
Long-term loans and deposits	7	4	70	(4)	(7)
Long-term loans from banks	(47)	(23)	(470)	23	47
Debentures	(164)	(82)	(1,640)	82	164
SWAP transactions from index to dollar*	123	62	164	(62)	(123)
Acquisition of index differentials*	11	6	2	(6)	(11)
Futures transactions	6	3	1	(3)	(6)
Embedded derivative	<u>10</u>	<u>5</u>	<u>10</u>	<u>(5)</u>	<u>(10)</u>
Total	<u>(54)</u>	<u>(25)</u>	<u>(1,863)</u>	<u>25</u>	<u>54</u>

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

Israel Corporation Ltd.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to changes in exchange rates:

Shekel/USD

Instrument Type	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value \$ millions	Increase (decrease) in fair value	Increase (decrease) in fair value
	\$ millions	\$ millions		\$ millions	\$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Cash and cash equivalents	(25)	(13)	266	14	29
Short-term deposits and loans	(9)	(4)	96	4	9
Trade receivables	(8)	(4)	81	4	8
Other receivables and debits	(4)	(2)	45	2	5
Long-term deposits and loans	(32)	(16)	317	16	32
Trade payables	31	16	(315)	(16)	(32)
Other payables and credits	21	10	(208)	(10)	(21)
Liabilities for employee rights	5	3	(57)	(3)	(6)
Long-term loans from banks	44	23	(476)	(25)	(52)
Debentures	196	101	(2,113)	(110)	(231)
SWAP transactions from shekel to dollar*	(168)	(87)	144	92	191
SWAP transactions from shekel to fixed dollar	(35)	(17)	(4)	15	29
Currency options	(58)	(23)	–	23	58
Forward transactions	(26)	(12)	3	12	21
Embedded derivative	(3)	(1)	–	1	3
Transaction fixing interest	<u>1</u>	<u>–</u>	<u>(9)</u>	<u>–</u>	<u>(1)</u>
Total	<u>(70)</u>	<u>(26)</u>	<u>(2,230)</u>	<u>19</u>	<u>42</u>

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

Israel Corporation Ltd.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to changes in exchange rates: (Cont.)

EURO/USD

Instrument Type	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value \$ millions	Increase (decrease) in fair value	Increase (decrease) in fair value
	\$ millions	\$ millions		\$ millions	\$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Cash and cash equivalents	(11)	(5)	108	5	11
Short-term deposits and loans	(2)	(1)	20	1	2
Trade receivables	(39)	(20)	397	20	40
Other receivables and debits	(3)	(1)	26	1	3
Inventory	(1)	(1)	14	1	1
Other long-term receivables and debits	(2)	(1)	23	1	3
Credit from banks and others	4	2	(41)	(2)	(4)
Trade and other payables	21	10	(209)	(11)	(21)
Other payables and credits	15	7	(146)	(7)	(15)
Long-term loans from banks	27	14	(270)	(14)	(27)
Forward transactions	(3)	(1)	11	2	4
Embedded derivatives	<u>(2)</u>	<u>(1)</u>	<u>1</u>	<u>1</u>	<u>2</u>
Total	<u>4</u>	<u>2</u>	<u>(66)</u>	<u>(2)</u>	<u>(1)</u>

£USD

Instrument Type	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value \$ millions	Increase (decrease) in fair value	Increase (decrease) in fair value
	\$ millions	\$ millions		\$ millions	\$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Short-term deposits and loans	(4)	(2)	43	2	4
Trade receivables	(5)	(2)	48	2	5
Credit from banks and others	3	1	(30)	(1)	(3)
Trade and other payables	1	1	(14)	(1)	(1)
Other payables and credits	1	1	(12)	(1)	(1)
Forward transactions	(5)	(3)	—	3	6
Total	<u>(9)</u>	<u>(4)</u>	<u>35</u>	<u>4</u>	<u>10</u>

Israel Corporation Ltd.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to changes in exchange rates: (Cont.)

Yen\USD

	Increase (decrease) in fair value \$ millions <u>Rise of 10%</u>	Increase (decrease) in fair value \$ millions <u>Rise of 5%</u>	Fair value \$ millions	Increase (decrease) in fair value \$ millions <u>Fall of 5%</u>	Increase (decrease) in fair value \$ millions <u>Fall of 10%</u>
Instrument Type					
Cash and cash equivalents	(1)	–	6	–	1
Trade receivables	(2)	(1)	21	1	2
Currency options	1	1	–	–	(1)
Forward transactions	<u>2</u>	<u>1</u>	<u>–</u>	<u>(1)</u>	<u>(2)</u>
Total	<u>≡</u>	<u>1</u>	<u>27</u>	<u>≡</u>	<u>≡</u>

Rial\USD

	Increase (decrease) in fair value \$ millions <u>Rise of 10%</u>	Increase (decrease) in fair value \$ millions <u>Rise of 5%</u>	Fair value \$ millions	Increase (decrease) in fair value \$ millions <u>Fall of 5%</u>	Increase (decrease) in fair value \$ millions <u>Fall of 10%</u>
Instrument Type					
Trade receivables	(1)	(1)	12	1	1
Trade and other payables	<u>1</u>	<u>–</u>	<u>(6)</u>	<u>–</u>	<u>(1)</u>
Total	<u>≡</u>	<u>(1)</u>	<u>6</u>	<u>1</u>	<u>≡</u>

Chinese Yuan\USD

	Increase (decrease) in fair value \$ millions <u>Rise of 10%</u>	Increase (decrease) in fair value \$ millions <u>Rise of 5%</u>	Fair value \$ millions	Increase (decrease) in fair value \$ millions <u>Fall of 5%</u>	Increase (decrease) in fair value \$ millions <u>Fall of 10%</u>
Instrument Type					
Cash and cash equivalents	(1)	(1)	14	1	1
Trade receivables	(2)	(1)	21	1	2
Trade and other payables	1	–	(9)	–	(1)
Other payables and credits	1	–	(9)	–	(1)
Forward transactions	<u>(6)</u>	<u>(3)</u>	<u>1</u>	<u>3</u>	<u>7</u>
Total	<u>(7)</u>	<u>(5)</u>	<u>18</u>	<u>5</u>	<u>8</u>

Israel Corporation Ltd.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to changes in exchange rates: (Cont.)

Canadian dollar

	Increase (decrease) in fair value \$ millions <u>Rise of 10%</u>	Increase (decrease) in fair value \$ millions <u>Rise of 5%</u>	Fair value \$ millions	Increase (decrease) in fair value \$ millions <u>Fall of 5%</u>	Increase (decrease) in fair value \$ millions <u>Fall of 10%</u>
Instrument Type					
Trade receivables	(2)	(1)	21	1	2
Trade and other payables	<u>2</u>	<u>1</u>	<u>(17)</u>	<u>(1)</u>	<u>(2)</u>
Total	<u>≡</u>	<u>≡</u>	<u>4</u>	<u>≡</u>	<u>≡</u>

Various currencies

	Increase (decrease) in fair value \$ millions <u>Rise of 10%</u>	Increase (decrease) in fair value \$ millions <u>Rise of 5%</u>	Fair value \$ millions	Increase (decrease) in fair value \$ millions <u>Fall of 5%</u>	Increase (decrease) in fair value \$ millions <u>Fall of 10%</u>
Forward transactions					
Net exposure					
Bolivian peso / dollar	1	-	(10)	(1)	(1)
Peruvian Sual / dollar	<u>(2)</u>	<u>(1)</u>	<u>27</u>	<u>1</u>	<u>3</u>
Total	<u>(1)</u>	<u>(1)</u>	<u>17</u>	<u>≡</u>	<u>2</u>

Sensitivity to other changes

Hedging marine shipping and energy

	Increase (decrease) in fair value \$ millions <u>Rise of 10%</u>	Increase (decrease) in fair value \$ millions <u>Rise of 5%</u>	Fair value \$ millions	Increase (decrease) in fair value \$ millions <u>Fall of 5%</u>	Increase (decrease) in fair value \$ millions <u>Fall of 10%</u>
Instrument Type					
Hedging transactions on marine shipping and energy prices	<u>6</u>	<u>3</u>	<u>(20)</u>	<u>(3)</u>	<u>(6)</u>

Israel Corporation Ltd.

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

Instrument Type	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions
	Rise of 50%	Rise of 20%		Fall of 20%	Fall of 50%
Transactions hedging fuel prices	28	11	–	(11)	(28)
Purchase options	12	4	1	(1)	(1)
Collar transactions	<u>14</u>	<u>5</u>	<u>1</u>	<u>(3)</u>	<u>(12)</u>
Total	<u>54</u>	<u>20</u>	<u>2</u>	<u>(15)</u>	<u>(41)</u>

UPDATE REGARDING DESCRIPTION OF THE CORPORATION'S BUSINESS

Set forth below are significant updates and/or changes in the Corporation's business that occurred from the publication date of the of the Corporation's Periodic Report for 2011 on March 29, 2012 and up to the publication date of this report⁶:

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).

⁶ 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.

Israel Corporation Ltd.

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

2. To Section 4 of Paragraph A of the Periodic Report – Acquisition, Sale or Transfer of Assets

Subsequent to the date of the report, on October 31, 2012, the Corporation confirmed that the Canadian Company, Potash, is carrying on contacts with various governmental authorities in connection with examination of the possibility of merging ICL with Potash, contacts that are being accompanied by senior Corporation officers. Such a transaction has not yet been formulated and Potash has not yet made a business request to the Corporation or to ICL. As at the date of the report, there is no certainty that business negotiations will be carried on between the Corporation and Potash or that a transaction will come to fruition between the parties or that the parties will sign an agreement and that such an agreement, to the extent signed, will be completed. For additional details – see the Corporation's Immediate Reports dated on October 31, 2012 and November 4, 2012 (Reference Nos. 2012-01-267930 and 2012-01-270378, respectively).

3. 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 of 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 at 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 commenced his position on September 20, 2012 and on this date Mr. Akiva Mozes concluded his position. For additional details – see the Corporation's Immediate Report dated August 19, 2012 (Reference No. 2012-01-213594).

Israel Corporation Ltd.

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

4. 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). On September 20, 2012, Maalot gave notice regarding with respect to leaving intact ZIM’s rating of iLB/Negative. For additional details – see the Corporation’s Immediate Report dated September 23, 2012 (Ref. No. 2012-01-242223).
- 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 decided 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 second quarter of 2012, 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).

5. 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.

6. 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. In 2012, I.C. Power executed a financial close for receipt of bank financing, in the amount of \$591 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 Ltd.

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

6. To Section 11 of Paragraph A of the Periodic Report – I. C. Power Ltd. (“I. C. Power”) (Cont.)

B. (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. For additional details – see the Corporation's Immediate Report dated August 19, 2012 (Ref. No. 2012-01-213516).

C. On October 2, 2012, the Corporation reported that it is carrying on contacts with the Noi Fund in connection with entering into an undertaking whereby the Noi Fund and I.C. Power Israel Ltd. will acquire 25% of the investments company in Israel of I.C. Power, which holds about 80% of the issued share capital of OPC, which is endeavoring to construct a power station in the Rotem Plain. For additional details – see the Corporation's Report dated October 2, 2012 (Ref. No. 2012-01-247413).

D. For details regarding the gas agreement signed by O.P.C. – see the Corporation's Immediate Report dated November 26, 2012 (Ref. No. 2012-01-289290).

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

7. 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).

C. During the third quarter of 2012, Better Place completed an additional investment round, in the aggregate amount of at least U.S.\$100 million from the preferred shareholders of Better Place, including the Corporation, against issuance of capital notes convertible into preferred shares (Series C) or other securities of Better Place, as detailed, among other things, in Section 1.3 of the Corporation's report dated November 1, 2012. The Corporation, based on contingent conditions, to invest as part of the present investment round, up to \$67 million, of which as at the date of the report the amount of about \$33 million had been transferred to Better Place. For additional details – see the Corporation's Immediate Reports dated October 31, 2012, November 1, 2012 and November 19, 2012 (Ref. Nos. 2012-01-268726, 2012-01-270006 and 2012-01-283410).

D. For a report regarding the possibility of constructing a thermo-solar project in Mashabei Sadeh by I.C. Green Energy Ltd. – see the Immediate Report dated November 21, 2012 (Ref. No. 2012-01-285072).

Israel Corporation Ltd.

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

8. To Section 13 of Paragraph A of the Periodic Report – Human Resources

- A. On October 14, 2012, Attorney Maya Alscheich-Kaplan, who served as In-House Counsel and Corporation Secretary, was appointed as Deputy CEO, Legal Advisor and Corporation Secretary. For additional details – see the Corporation's Immediate Report dated October 15, 2012 (Ref. No. 2012-01-255330).
- B. Regarding the service agreements of the Chairman of the Board of Directors and the Corporation's CEO, as well as in connection with update of the said service agreements of and with respect to an options' plan adopted by the Corporation – see the Corporation's Immediate Report dated November 27, 2012.

9. 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).

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

- A. 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, September 6, 2012 and July 9, 2012 (Ref. Nos. 2012-01-141063, 2012-01-148956 and 2012-01-181107, respectively).
- B. During the period of the report, the District Court of New York decided to summarily dismiss the claim of V-Cars LLC against the Corporation. For details in connection with the said claim – see Note 22B5 to the Corporation's financial statements as at December 31, 2011. For additional details – see the Corporation's Report dated October 2, 2012 (Ref. No. 2012-01-246861).

As a result of rejection of the claim, as stated, the plaintiff filed an appeal of the Court's said decision. The Corporation intends to submit a response to the appeal. For additional details – see the Corporation's Report dated November 4, 2012 (Ref. No. 2012-01-270369).

11. 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.)

12. 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).
- C. Regarding the Corporation's investment in Better Place concurrent with the investment made by "related entities" – see Section 7C above.

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 Leone, 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.

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

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).

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 third 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 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.

Israel Corporation Ltd.

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

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

- B. The Finance and Balance Sheet Committee discussed and formulated its recommendations to the Corporation's Board of Directors at its meeting on November 22, 2012. At the Committee's meeting, Ofer Termachi, Gideon Langholtz, Dan Zusskind and Zahavit Cohen participated.
- C. Set forth below is the name and position of every officer, interested party, family member of any of these parties and/or a party on his behalf that was present only at the review by Corporation Management of the financial-statement data and the accounting treatment applied with respect thereto, at the Finance and Balance Sheet Committee's meeting: Idan Ofer, Aviad Kaufman, Michael Bricker and Ron Moshkovitz. Nir Gilad, CEO; Avisar Paz, CFO; Maya Alscheich-Kaplan, Deputy CEO, Legal Advisor and Corporation Secretary; Eran Sarig, Deputy CEO of Business and Strategic Development, and Zion Amsalem, CPA, the Corporation's auditing CPA, were present during the entire meeting.
- 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 third 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 September 30, 2012, at its meeting held on November 26, 2012. All the members of the Board of Directors participated in the meeting where the Corporation's financial statements as at September 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.

Israel Corporation Ltd.

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

1. In October 2012, Ms. Maya Alscheich-Kaplan was appointed as Deputy CEO, the Legal Advisor and the Corporation's Secretary.
2. 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.
3. In January 2012, Maalot confirmed a rating for the Corporation's debentures (Series 3-9) of iIA+/stable.
4. 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.
5. Regarding a claim against the Corporation and opposing proceedings – see Note 6D to the financial statements.
6. 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.
7. Further to that stated in Section 13, Various Events in the Corporation in the Year of Account and Thereafter, in the Report of the Board of Directors as at December 31, 2011, 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.
8. On May 30, 2012, the Corporation published a shelf prospectus. For details see “Update of the Corporation's Business”, Section 1.
9. On September 23, 2012, Mr. Yossi Rozen concluded his position as Chairman of the Board of Directors of ORL, and in his place Mr. Akiva Mozes was appointed to fill this position. Mr. Rozen will continue to serve as a director of ORL.
10. 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.

Israel Corporation Ltd.

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

11. 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.

12. 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 commenced his position on September 20, 2012 and on this date Mr. Akiva Mozes concluded his position.
13. A subsidiary of I.C. Power executed a financial close for receipt of bank financing, in the amount of \$591 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 12 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. The financial close was executed in two stages: during August 2012 a financial close was executed, in the amount of \$534 million, from 11 banks and during September 2012 one of the banks increased the amount of the financing and an additional bank joined for a total amount of financing of \$591 million.

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.

14. On August 9, 2012, after approval by the Audit Committee and the Board of Directors, the Corporation’s General Meeting approved, the Corporation’s undertaking in an insurance policy covering officers in the Corporation Group (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) that are presently serving the Corporation and that will be serving the Corporation from time to time, and also approved a framework transaction whereby the Corporation’s Audit Committee and the Board of Directors will be permitted to approve renewal of acquisition of the insurance during a period of three years commencing from the current insurance year – all as stated in the report convening the Meeting. See also the Immediate Report dated July 4, 2012.

Israel Corporation Ltd.

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

15. Subsequent to the date of the report, in October 2012, the Corporation's Board of Directors approved an investment of up to about \$67 million in Better Place as part of an additional round of raising financing Better Place is carrying on. As part of the additional fundraising round, Better Place is seeking to raise at least \$100 million from its shareholders against issuance of convertible notes. In November 2012, the Corporation invested about \$33 million (out of a total amount of about \$67 million the Corporation committed to invest). For additional details – see Note 12.A.5 to the financial statements.
16. Subsequent to the date of the report, on November 25, 2012, ICL, ORL, and O.P.C. signed gas supply agreements. For additional details – see Note 7F to the financial statements.
17. Subsequent to the date of the report, on November 26, 2012, the Corporation's Board of Directors approved a private offer for issuance of options exercisable for Corporation shares to Corporation officers and employees. For additional details – see Note 7G to the financial statements.
18. 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 November 26, 2012 (Ref. No. 2012-01-290280), where the information included in that Report is included herein by reference.

ADDITIONAL INFORMATION INCLUDED IN THE AUDITORS' REVIEW REPORT

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

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

1. That stated in Note 6.A 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 6.B and 6.H regarding the dependency of an associated company on receipt of services from infrastructure companies and suppliers of natural gas, that stated in Note 5.D.1 regarding the financial position of the associated company and of certain of its investee companies 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.
3. That stated in Notes 5.C.4 and 5.C.5 regarding estimates of a subsidiary in connection with the forecasted cash flows deriving from, among other things, purchase agreements with shipyards.

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

November 26, 2012

Israel Corporation Ltd.

Condensed Consolidated Interim Financial Statements

As at September 30, 2012

(Unaudited)

In Millions of U.S. Dollars

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

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

Introduction

We have reviewed the accompanying financial information of Israel Corporation Ltd. and its subsidiaries including the condensed consolidated interim statement of financial position as at September 30, 2012 and the condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the nine-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 1.7% of the total consolidated assets as at September 30, 2012, and the revenues of which included in the consolidation constitute about 3.4% and about 3.26% of the total consolidated revenues for the nine-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 \$51 million as at September 30, 2012, and the Group's share in their losses was about \$7 million and about \$5 million, for the nine-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 6.A 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 6.B and 6.H regarding the dependency of an associated company on receipt of services from infrastructure companies and suppliers of natural gas, that stated in Note 5.D.1 regarding the financial position of the associated company and of certain of its investee companies 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.
3. That stated in Notes 5.C.4 and 5.C.5 regarding estimates of a subsidiary in connection with the forecasted cash flows deriving from, among other things, purchase agreements with shipyards.

Somekh Chaikin
Certified Public Accountants (Isr.)

November 26, 2012

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Financial Position

	At September 30		At December 31
	2012	2011	2011
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
<u>Current Assets</u>			
Cash and cash equivalents	1,012	1,175	**1,241
Securities held for trade	39	**30	37
Short-term investments, deposits and loans	1,001	**1,026	**606
Trade receivables	1,638	1,719	1,654
Other receivables and debit balances, including derivative instruments	408	433	390
Income taxes receivable	65	49	86
Inventories	<u>1,372</u>	<u>1,328</u>	<u>1,454</u>
Total current assets	<u>5,535</u>	<u>5,760</u>	<u>5,468</u>
<u>Non-Current Assets</u>			
Investments in associated companies	1,298	*1,323	*1,329
Investments in other companies	5	10	8
Deposits, loans and other debit balances	386	288	313
Derivative instruments	262	355	319
Excess of assets over liabilities in respect of defined benefit plan	69	68	65
Deferred taxes, net	88	111	107
Non-current inventory	60	57	49
Property, plant and equipment	7,042	**6,220	**6,595
Intangible assets	<u>1,104</u>	<u>**1,139</u>	<u>**1,104</u>
Total non-current assets	<u>10,314</u>	<u>9,571</u>	<u>9,889</u>
Total assets	<u>15,849</u>	<u>15,331</u>	<u>15,357</u>

* 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

	<u>At September 30</u>	<u>At December 31</u>	
	<u>2012</u>	<u>2011</u>	<u>2011</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
	<u>In Millions of U.S. Dollars</u>		
<u>Current Liabilities</u>			
Credit from banks and others	1,428	2,154	2,923
Trade payables	1,000	1,085	1,107
Provisions	76	110	77
Other payables and credit balances, including derivative instruments	847	781	889
Income taxes payable	45	82	58
Total current liabilities	<u>3,396</u>	<u>4,212</u>	<u>5,054</u>
<u>Non-Current Liabilities</u>			
Loans from banks and others	4,490	3,345	2,656
Debentures	2,366	2,504	2,381
Derivative instruments	73	99	88
Provisions	79	78	80
Deferred taxes, net	310	210	269
Employee benefits	669	642	662
Total non-current liabilities	<u>7,987</u>	<u>6,878</u>	<u>6,136</u>
Total liabilities	<u>11,383</u>	<u>11,090</u>	<u>11,190</u>
<u>Equity</u>			
Share capital and premium	285	285	285
Capital reserves	121	105	98
Capital reserve in respect of transactions with controlling shareholder	166	125	137
Retained earnings	1,975	*2,022	*1,946
Total equity attributable to the owners of the Corporation	<u>2,547</u>	<u>2,537</u>	<u>2,466</u>
Holder of non-controlling interests	<u>1,919</u>	<u>1,704</u>	<u>1,701</u>
Total equity	<u>4,466</u>	<u>4,241</u>	<u>4,167</u>
Total liabilities and equity	<u>15,849</u>	<u>15,331</u>	<u>15,357</u>

* Retroactive application of accounting policy – see Note 3.

Amir Elstein
Chairman of the Board of Directors

Nir Gilad
CEO

Avisar Paz
CFO

Approval date of the financial statements: November 26, 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				
	Nine Months Ended		Three Months Ended		Year Ended
	September 30		September 30		December 31
	2012	2011	2012	2011	2011
	(Unaudited)		(Unaudited)		(Audited)
In Millions of U.S. Dollars					
Sales	8,917	8,803	3,092	3,080	11,608
Cost of sales	<u>6,532</u>	<u>6,385</u>	<u>2,176</u>	<u>2,236</u>	<u>8,477</u>
Gross profit	2,385	2,418	916	844	3,131
Research and development expenses	62	58	21	21	77
Selling, transportation and marketing expenses	613	646	210	219	873
Administrative and general expenses	347	371	108	126	506
Other expenses	11	31	5	7	30
Other income	<u>(45)</u>	<u>(64)</u>	<u>(20)</u>	<u>(33)</u>	<u>(97)</u>
Operating income	<u>1,397</u>	<u>1,376</u>	<u>592</u>	<u>504</u>	<u>1,742</u>
Financing expenses	379	410	118	57	505
Financing income	<u>(71)</u>	<u>(145)</u>	<u>(9)</u>	<u>(44)</u>	<u>(181)</u>
Financing expenses, net	<u>308</u>	<u>265</u>	<u>109</u>	<u>13</u>	<u>324</u>
Share in income (losses) of associated companies, net of tax	<u>(115)</u>	<u>*(38)</u>	<u>(26)</u>	<u>*(17)</u>	<u>*(91)</u>
Income before taxes on income	974	1,073	457	474	1,327
Taxes on income	<u>281</u>	<u>302</u>	<u>105</u>	<u>109</u>	<u>423</u>
Income for the period	<u>693</u>	<u>771</u>	<u>352</u>	<u>365</u>	<u>904</u>
Attributable to:					
The owners of the Corporation	160	*206	159	*151	*155
Holders of non-controlling interests	<u>533</u>	<u>565</u>	<u>193</u>	<u>214</u>	<u>749</u>
Income for the period	<u>693</u>	<u>771</u>	<u>352</u>	<u>365</u>	<u>904</u>
Income per share attributable to the owners of the Corporation:					
Basic income per share (in dollars)	<u>20.64</u>	<u>*28.12</u>	<u>20.52</u>	<u>*22.11</u>	<u>*20.05</u>
Diluted income per share (in dollars)	<u>20.55</u>	<u>*27.54</u>	<u>20.52</u>	<u>*21.94</u>	<u>*19.34</u>

* 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				
	Nine Months Ended		Three Months Ended		Year Ended
	September 30		September 30		December 31
	2012	2011	2012	2011	2011
	(Unaudited)		(Unaudited)		(Audited)
	In Millions of U.S. Dollars				
Income for the period	<u>693</u>	*771	<u>352</u>	*365	*904
Components of other comprehensive income (loss)					
Foreign currency translation differences in respect of foreign activities	17	(2)	44	(73)	(39)
Actuarial gains (losses) from defined benefit plans, net	(14)	(40)	2	(43)	(41)
Group's share in other comprehensive income (loss) of associated companies	(1)	(7)	1	(4)	(7)
Effective portion of the change in fair value of cash flow hedges	13	(6)	14	1	–
Net change in fair value of financial assets available for sale	–	(8)	–	–	(8)
Net change in fair value of cash flow hedges transferred to the statement of income	1	2	–	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)	<u>–</u>	<u>15</u>	<u>(3)</u>	<u>13</u>	<u>10</u>
Other comprehensive income (loss) for the period, net of tax	<u>16</u>	(40)	<u>58</u>	(105)	(76)
Comprehensive income for the period	<u>709</u>	<u>731</u>	<u>410</u>	<u>260</u>	<u>828</u>
Attributable to:					
The owners of the Corporation	172	*182	195	*91	*115
Holders of non-controlling interests	<u>537</u>	<u>549</u>	<u>215</u>	<u>169</u>	<u>713</u>
Comprehensive income for the period	<u>709</u>	<u>731</u>	<u>410</u>	<u>260</u>	<u>828</u>

* 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		
\$ millions								
For the nine months ended September 30, 2012								
Balance at January 1, 2012 (audited)	285	46	52	137	*1,946	2,466	1,701	4,167
Share-based payments in a subsidiary	-	-	-	-	-	-	7	7
Exercise of options granted to employees of subsidiary	-	-	-	-	2	2	2	4
Share-based payments in the Corporation	-	-	4	-	-	4	-	4
Dividend to holders of non-controlling interests in a subsidiary	-	-	-	-	-	-	(364)	(364)
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	-	-	-	-	-	-	38	38
Transactions with controlling shareholder	-	-	-	29	-	29	-	29
Income for the period	-	-	-	-	160	160	533	693
Other comprehensive income for the period, net of tax	-	12	7	-	(7)	12	4	16
Balance at September 30, 2012	<u>285</u>	<u>58</u>	<u>63</u>	<u>166</u>	<u>1,975</u>	<u>2,547</u>	<u>1,919</u>	<u>4,466</u>
For the nine months ended September 30, 2011								
Balance at January 1, 2011 (audited)	282	65	42	90	*1,901	2,380	1,446	3,826
Share-based payments in a subsidiary	-	-	-	-	-	-	10	10
Share-based payments in the Corporation	3	-	7	-	-	10	-	10
Dividend to holders of non-controlling interests in a subsidiary	-	-	-	-	-	-	(319)	(319)
Dividend to equity holders	-	-	-	-	(70)	(70)	-	(70)
Non-controlling interests in respect of business combination	-	-	-	-	-	-	12	12
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	-	-	-	35	-	35	-	35
Income for the period	-	-	-	-	*206	206	565	771
Other comprehensive loss for the period, net of tax	-	(3)	(6)	-	(15)	(24)	(16)	(40)
Balance at September 30, 2011	<u>285</u>	<u>62</u>	<u>43</u>	<u>125</u>	<u>2,022</u>	<u>2,537</u>	<u>1,704</u>	<u>4,241</u>

* 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		
\$ millions								
For the three months ended September 30, 2012								
Balance at July 1, 2012	285	30	54	157	*1,816	2,342	1,820	4,162
Share-based payments in a subsidiary	-	-	-	-	-	-	2	2
Share-based payments in the Corporation	-	-	1	-	-	1	-	1
Dividend to holders of non-controlling interests in a subsidiary	-	-	-	-	-	-	(137)	(137)
Issuance of shares of a subsidiary to holders of non-controlling interests	-	-	-	-	-	-	19	19
Transactions with controlling shareholder	-	-	-	9	-	9	-	9
Income for the period	-	-	-	-	159	159	193	352
Other comprehensive income for the period, net of tax	-	28	8	-	-	36	22	58
Balance at September 30, 2012	<u>285</u>	<u>58</u>	<u>63</u>	<u>166</u>	<u>1,975</u>	<u>2,547</u>	<u>1,919</u>	<u>4,466</u>
For the three months ended September 30, 2011								
Balance at July 1, 2011	285	104	43	113	*1,887	2,432	1,671	4,103
Share-based payments in a subsidiary	-	-	-	-	-	-	3	3
Share-based payments in the Corporation	-	-	2	-	-	2	-	2
Dividend to holders of non-controlling interests in a subsidiary	-	-	-	-	-	-	(142)	(142)
Non-controlling interests in respect of business combination	-	-	-	-	-	-	3	3
Transactions with controlling shareholder	-	-	-	12	-	12	-	12
Income for the period	-	-	-	-	*151	151	214	365
Other comprehensive loss for the period, net of tax	-	(42)	(2)	-	(16)	(60)	(45)	(105)
Balance at September 30, 2011	<u>285</u>	<u>62</u>	<u>43</u>	<u>125</u>	<u>2,022</u>	<u>2,537</u>	<u>1,704</u>	<u>4,241</u>

* 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		Total		
				controlling shareholder	Retained earnings			
\$ 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	<u>285</u>	<u>46</u>	<u>52</u>	<u>137</u>	<u>1,946</u>	<u>2,466</u>	<u>1,701</u>	<u>4,167</u>

* 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				
	Nine Months Ended		Three Months Ended		Year Ended
	September 30		September 30		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	693	*771	352	*365	*904
Adjustments:					
Depreciation and amortization	388	371	133	134	501
Decline in value of assets	5	9	-	1	11
Financing expenses (income), net	275	193	118	(9)	241
Share in losses of associated companies, net	115	*38	26	*17	*91
Capital gains, net	(29)	(58)	(16)	(33)	(64)
Share-based payment transactions	11	21	3	6	24
Gain in respect of acquisition at bargain price (negative goodwill)	-	-	-	-	(24)
Loss on investment in securities held for trade and available for sale	1	6	-	3	8
Taxes on income	<u>281</u>	<u>302</u>	<u>105</u>	<u>109</u>	<u>423</u>
	<u>1,740</u>	<u>1,653</u>	<u>721</u>	<u>593</u>	<u>2,115</u>
Change in inventories	71	(89)	36	(60)	(214)
Change in trade and other receivables	(84)	(312)	175	121	(290)
Change in trade and other payables	(19)	225	(2)	44	314
Change in uncompleted voyages, net	(10)	(70)	(11)	6	(58)
Change in provisions and employee benefits	(15)	(11)	(9)	(29)	(38)
	<u>1,683</u>	<u>1,396</u>	<u>910</u>	<u>675</u>	<u>1,829</u>
Income taxes paid, net	(214)	(361)	(73)	(96)	(453)
Dividend received	<u>22</u>	<u>29</u>	<u>12</u>	<u>15</u>	<u>39</u>
Net cash provided by operating activities	<u>1,491</u>	1,064	<u>849</u>	594	1,415
Cash flows from investing activities					
Investment in long-term deposits	(2)	(34)	(1)	(34)	(35)
Proceeds from realization of long-term deposits	3	3	1	1	4
Proceeds from sale of property, plant and equipment	47	43	34	35	49
Short-term deposits and loans, net	(385)	(350)	(501)	(566)	**48
Business combinations less cash acquired	(21)	(450)	(2)	2	(470)
Proceeds from sale of subsidiary less cash acquired	2	-	1	-	-
Investments in associated companies	(71)	(47)	-	(47)	(103)
Proceeds from sale of associated companies	-	-	-	-	10
Sale of securities held for trade and available for sale	-	13	-	-	14
Acquisition of property, plant and equipment	(842)	**(653)	(310)	**(270)	**(1,028)
Provision of long-term loan	(3)	-	(3)	-	-
Investment grants received	-	1	-	1	1
Acquisition of intangible assets	(23)	**(12)	(8)	**(4)	**(30)
Interest received	32	27	12	10	40
Collection of long-term loans	-	34	-	-	34
Receipts from derivative transactions used for hedging, net	2	-	-	-	2
Receipts (payments) from derivative transactions, net	<u>(33)</u>	<u>19</u>	<u>(32)</u>	<u>25</u>	<u>21</u>
Net cash used in investing activities	<u>(1,294)</u>	(1,406)	<u>(809)</u>	(847)	(1,443)

* 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				
	Nine Months Ended		Three Months Ended		Year Ended
	September 30		September 30		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	(378)	(398)	(136)	(142)	(541)
Acquisition of rights non-controlling interests in subsidiary	(8)	–	–	–	–
Proceeds from issuance of shares to holders of non-controlling interests in subsidiaries	38	17	19	–	18
Receipt of long-term loans and issuance of debentures	1,236	1,022	376	232	1,930
Dividend paid to the owners of the Corporation	(120)	(70)	–	–	(70)
Repayment of long-term loans and debentures	(771)	(594)	(339)	(187)	(1,557)
Short-term credit from banks and others, net	(160)	321	(26)	72	332
Payments from derivative transactions used for hedging, net	(3)	–	(3)	(1)	–
Proceeds from exercise of options granted to employees of a subsidiary	4	–	–	–	–
Interest paid	<u>(269)</u>	<u>(253)</u>	<u>(105)</u>	<u>(96)</u>	<u>(304)</u>
Net cash provided by (used in) financing activities	<u>(431)</u>	<u>45</u>	<u>(214)</u>	<u>(122)</u>	<u>(192)</u>
Decrease in cash and cash equivalents	(234)	(297)	(174)	(375)	(220)
Cash and cash equivalents at beginning of the period	1,240	1,476	1,176	1,553	1,476
Effect of exchange rate fluctuations on balances of cash and cash equivalents	<u>3</u>	<u>(4)</u>	<u>7</u>	<u>(3)</u>	<u>(16)</u>
Cash and cash equivalents at the end of the period	<u>1,009</u>	<u>1,175</u>	<u>1,009</u>	<u>1,175</u>	**<u>1,240</u>

** 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 September 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 September 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 November 26, 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.

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

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.

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 result 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.

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

Note 3 – Significant Accounting Policies (Cont.)

A. (Cont.)

Changes in accounting policy (Cont.)

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 nine-month period ended September 30, 2011 of about \$3 million and a decrease in the income attributable to the Corporation's owners for the three-month period ended September 30, 2011 of about \$5 million; an increase in the balance of the investments in associated companies as at December 31, 2011 of about \$1 million; an increase in the balance of the retained earnings as at December 31, 2011 of about \$1 million; 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
	<u>%</u>	<u>%</u>	<u>%</u>
Rates of change for the nine months ended:			
September 30, 2012	2.1	2.4	(0.2)
September 30, 2011	2.3	4.6	(1.7)
Rates of change for the three months ended:			
September 30, 2012	0.9	(0.3)	(2.9)
September 30, 2011	0.6	8.7	6.5
For the year ended December 31, 2011	2.5	7.7	3.3

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

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 September 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 nine months ended							
September 30, 2012:							
Sales to external customers	5,334	7,298	2,965	419	199	(7,298)	8,917
Inter-segment sales	—	—	15	—	—	—	15
	<u>5,334</u>	<u>7,298</u>	<u>2,980</u>	<u>419</u>	<u>199</u>	<u>(7,298)</u>	<u>8,932</u>
Elimination of inter-segment sales	—	—	(15)	—	—	—	(15)
Total sales	<u>5,334</u>	<u>7,298</u>	<u>2,965</u>	<u>419</u>	<u>199</u>	<u>(7,298)</u>	<u>8,917</u>
EBITDA for the period	<u>1,597</u>	<u>68</u>	<u>102</u>	<u>104</u>	<u>(12)</u>	<u>(68)</u>	<u>1,791</u>
Depreciation and amortization	210	107	138	39	6	(107)	393
Financing income	(34)	(19)	(2)	(4)	(58)	46	(71)
Financing expenses	93	131	146	35	132	(158)	379
Share in losses (income) of associated companies	(7)	5	(6)	(24)	152	(5)	115
Special or non-recurring income	1	—	—	—	—	—	1
	<u>263</u>	<u>224</u>	<u>276</u>	<u>46</u>	<u>232</u>	<u>(224)</u>	<u>817</u>
Income (loss) before taxes	1,334	(156)	(174)	58	(244)	156	974
Taxes on income	235	(32)	15	14	17	32	281
Income (loss) for the year	<u>1,099</u>	<u>(124)</u>	<u>(189)</u>	<u>44</u>	<u>(261)</u>	<u>124</u>	<u>693</u>
For the nine months ended							
September 30, 2011:							
Sales to external customers	5,355	7,456	2,864	399	185	(7,456)	8,803
Inter-segment sales	1	—	21	—	—	—	22
	<u>5,356</u>	<u>7,456</u>	<u>2,885</u>	<u>399</u>	<u>185</u>	<u>(7,456)</u>	<u>8,825</u>
Elimination of inter-segment sales	(1)	—	(21)	—	—	—	(22)
Total sales	<u>5,355</u>	<u>7,456</u>	<u>2,864</u>	<u>399</u>	<u>185</u>	<u>(7,456)</u>	<u>8,803</u>
EBITDA for the period	1,657	*192	(3)	98	4	(192)	1,756
Depreciation and amortization	198	99	146	31	5	(99)	380
Financing income	(29)	(21)	(33)	(8)	(82)	28	(145)
Financing expenses	89	104	126	38	164	(111)	410
Share in losses (income) of associated companies	(11)	4	(17)	(22)	*88	(4)	38
	<u>247</u>	<u>186</u>	<u>222</u>	<u>39</u>	<u>175</u>	<u>(186)</u>	<u>683</u>
Income (loss) before taxes	1,410	6	(225)	59	(171)	(6)	1,073
Taxes on income	261	*15	13	15	13	(15)	302
Income (loss) for the year	<u>1,149</u>	<u>(9)</u>	<u>(238)</u>	<u>44</u>	<u>(184)</u>	<u>9</u>	<u>771</u>

* 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 September 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 three months ended							
September 30, 2012:							
Sales to external customers	1,817	2,398	1,059	146	70	(2,398)	3,092
Inter-segment sales	—	—	5	—	—	—	5
	<u>1,817</u>	<u>2,398</u>	<u>1,064</u>	<u>146</u>	<u>70</u>	<u>(2,398)</u>	<u>3,097</u>
Elimination of inter-segment sales	—	—	(5)	—	—	—	(5)
Total sales	<u>1,817</u>	<u>2,398</u>	<u>1,059</u>	<u>146</u>	<u>70</u>	<u>(2,398)</u>	<u>3,092</u>
EBITDA for the period	563	61	125	41	(4)	(61)	725
Depreciation and amortization	72	35	44	14	3	(35)	133
Financing income	(11)	(7)	—	(1)	(13)	23	(9)
Financing expenses	24	49	60	13	37	(65)	118
Share in losses (income) of associated companies	(2)	2	(2)	(8)	38	(2)	26
	<u>83</u>	<u>79</u>	<u>102</u>	<u>18</u>	<u>65</u>	<u>(79)</u>	<u>268</u>
Income (loss) before taxes	480	(18)	23	23	(69)	18	457
Taxes on income	81	(3)	6	7	11	3	105
Income (loss) for the year	<u>399</u>	<u>(15)</u>	<u>17</u>	<u>16</u>	<u>(80)</u>	<u>15</u>	<u>352</u>
For the three months ended							
September 30, 2011:							
Sales to external customers	1,899	2,745	967	122	92	(2,745)	3,080
Inter-segment sales	—	—	6	—	—	—	6
	<u>1,899</u>	<u>2,745</u>	<u>973</u>	<u>122</u>	<u>92</u>	<u>(2,745)</u>	<u>3,086</u>
Elimination of inter-segment sales	—	—	(6)	—	—	—	(6)
Total sales	<u>1,899</u>	<u>2,745</u>	<u>967</u>	<u>122</u>	<u>92</u>	<u>(2,745)</u>	<u>3,080</u>
EBITDA for the period	631	*20	(16)	26	(2)	(20)	639
Depreciation and amortization	75	33	47	10	3	(33)	135
Financing income	(17)	—	(29)	(5)	—	7	(44)
Financing expenses	33	8	28	4	—	(16)	57
Share in losses (income) of associated companies	(2)	—	(2)	(6)	*27	—	17
	<u>89</u>	<u>41</u>	<u>44</u>	<u>3</u>	<u>30</u>	<u>(42)</u>	<u>165</u>
Income (loss) before taxes	542	(21)	(60)	23	(32)	22	474
Taxes on income	104	*1	6	4	(5)	(1)	109
Income (loss) for the year	<u>438</u>	<u>(22)</u>	<u>(66)</u>	<u>19</u>	<u>(27)</u>	<u>23</u>	<u>365</u>

* 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
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Note 4 – Information on Activity Segments (Cont.)

B. Information relating to Business Segments (Cont.)

	<u>ICL</u>	<u>ORL</u>	<u>ZIM</u>	<u>I.C. Power</u>	<u>Other</u>	<u>Adjustments ⁽¹⁾</u>	<u>Total</u>
	<u>Audited</u>						
	<u>\$ millions</u>						
2011:							
Sales to external customers	7,067	9,562	3,758	526	257	(9,562)	11,608
Inter-segment sales	<u>1</u>	<u>9</u>	<u>26</u>	<u>–</u>	<u>–</u>	<u>(9)</u>	<u>27</u>
	7,068	9,571	3,784	526	257	(9,571)	11,635
Elimination of inter-segment sales	<u>(1)</u>	<u>(9)</u>	<u>(26)</u>	<u>–</u>	<u>–</u>	<u>9</u>	<u>(27)</u>
Total sales	<u>7,067</u>	<u>9,562</u>	<u>3,758</u>	<u>526</u>	<u>257</u>	<u>(9,562)</u>	<u>11,608</u>
EBITDA for the year	<u>2,193</u>	<u>*140</u>	<u>(85)</u>	<u>120</u>	<u>(1)</u>	<u>(137)</u>	<u>2,230</u>
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	<u>–</u>	<u>–</u>	<u>–</u>	<u>(24)</u>	<u>–</u>	<u>–</u>	<u>(24)</u>
	<u>321</u>	<u>264</u>	<u>286</u>	<u>35</u>	<u>258</u>	<u>(261)</u>	<u>903</u>
Income (loss) before taxes	1,872	(124)	(371)	85	(259)	124	1,327
Taxes on income	<u>349</u>	<u>*(24)</u>	<u>19</u>	<u>18</u>	<u>32</u>	<u>29</u>	<u>423</u>
Income (loss) for the year	<u>1,523</u>	<u>(100)</u>	<u>(390)</u>	<u>67</u>	<u>(291)</u>	<u>95</u>	<u>904</u>
Other significant non-cash items:							
Decline in value of fixed and intangible assets	<u>–</u>	<u>–</u>	<u>11</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>11</u>
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)	<u>1,329</u>
							<u>15,357</u>
Sector liabilities	<u>4,178</u>	<u>3,506</u>	<u>3,153</u>	<u>1,569</u>	<u>3,160</u>	<u>(4,376)</u>	<u>11,190</u>
Capital expenses	<u>909</u>	<u>359</u>	<u>23</u>	<u>636</u>	<u>139</u>	<u>(359)</u>	<u>1,707</u>

* 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 September 30, 2012

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 be 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 iIA+/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.

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

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 repayment date of the loan was set as September 24, 2012. During the period of the report, the period of the loan was extended by an additional three months. In addition, the interest rate was updated to the three-month Libor rate plus a margin of 0.7% (1.073). The terms of the loan are comparable to market terms.
10. Regarding the Corporation's liability in respect of a guarantee provided by Chery in favor of Qoros – see Note 5.F.2 below.
11. Regarding the Corporation's commitment in respect of the financing agreement with a subsidiary of I.C. Power – see Note 5.E.3 below.
12. Subsequent to the date of the financial report, in October 2012, the Corporation's Audit Committee and Board of Directors approved an investment of up to about \$67 million in Better Place as part of an additional round of raising financing Better Place is carrying on. As part of the additional fundraising round, Better Place is seeking to raise at least \$100 million from its shareholders against issuance of convertible capital notes it will issue.

The current investment round is subject to fulfillment of the following preconditions: (1) receipt a commitment from all the investors to participate in the current investment round to invest an aggregate amount of \$100 million; and (2) receipt of the approvals required by law for the Corporation's investment in the current investment round.

The investment is being made in two stages, as follows: half of the amount of the investment each of the investors committed to is transferred upon fulfillment of the preconditions to execute the current investment round, as detailed above, while the second half will be transferred to Better Place in one or more installments after a capital call is made by Better Place during a period of up to 12 months from the first investment in the current round.

The convertible capital notes will bear a benefit at the rate of 12% per year, where the part of the investment amount that is higher than the proportionate share of each investor will bear a benefit at the rate of 18% per year. The benefit will be added to the amount of the investment on the conversion date. The convertible capital notes may be converted into preferred stock (Series C), or securities to be issued in an additional fundraising round or a public issuance.

On November 2, 2012, the preconditions for purposes of completion of the investment round were fulfilled and, accordingly, the Corporation invested \$33 million against the convertible notes (out of an amount of \$67 million the Corporation committed to invest in the current round).

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

Note 5 – Additional Information (Cont.)

A. The Corporation (Cont.)

13. 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 September 30, 2012, the exchange rate of the RMB vis-à-vis the dollar was 6.28 (as at December 31, 2011 – 6.31, a decline of 0.5%).

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 be completed in the middle of 2015 and its total cost is estimated at about \$320 million. The construction agreements are linked to the rate of exchange of the euro.

DSW 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. Accordingly, changes in the fair value of the derivative serving to hedge cash flows, in respect of the effective hedge part, are recorded and recognized in other comprehensive income. In respect of the ineffective hedge part, the changes will be recorded on the statement of income. In the period of the report, other comprehensive income was recognized, in the amount of about \$14 million.

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 the above-mentioned note. 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 September 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 September 30, 2012, is \$181 million (the minimum quarterly required liquidity balance is \$100 million), and the EBIDTA for the nine-month period ended September 30, 2012 is about \$65 million (the EBIDTA required for the nine-month period ended September 30, 2012 is a negative about \$23 million) and the quarterly EBIDTA is about \$116 million (the quarterly EBIDTA required for the third quarter of 2012 is positive EBIDTA).

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

Note 5 – Additional Information (Cont.)

C. ZIM Integrated Shipping Services Ltd. (hereinafter – “ZIM”)

3. On May 6, 2012, Maalot notified ZIM with respect to a reduction of its rating to iIB (from iIBB–), with a negative rating outlook. On September 20, 2012, Maalot notified that the rating (iIB), with a negative rating outlook remains unchanged due to the concern regarding ZIM’s ability to meet the liquidity requirements imposed by the financing banks, which were made stricter as a result of their waiver of most of the accounting covenants up to the end of 2013.
4. ZIM examines on a current ongoing basis the scope of the sources expected from its business activities, the sale of assets and financing transactions, against the needs deriving mainly from debt service, investments, and the financial covenants it is required to fulfill. As at the signing date of ZIM’s financial statements, ZIM’s Management estimates that it will comply with its various liabilities on a timely basis. Commencing from the start of the 2009 debt arrangement, ZIM has had a significant improvement in its operating results and, at the same time, in its results compared with other shipping companies. Nonetheless, in light of the high volatility in the market conditions, in general, and in the shipping industry, in particular, which impact ZIM’s business plans, ZIM may be required to request from its financing parties, the shipyards and the ship owners leasing ships to ZIM, to receive relaxations and/or certain flexibility in connection with its liabilities.
5. ZIM has pending orders for construction of ships from two shipyards. The latest receipt date of the ships pursuant to the orders is during 2015. Based on the existing agreement with one of the shipyards, the next payment date for an advance deposit, in the amount of about \$137 million, falls in January 2013. In addition, the payment dates of additional advance deposits, in the amount of about \$51 million fall in 2013. Based on the existing acquisition agreement with the second shipyard, the next date for an advance deposit, in the amount of about \$47 million, falls in the fourth quarter of 2013, assuming ZIM notifies up to the end of January 2013 that it is interested in carrying out the contract.

As at September 30, 2012, the advance deposits paid to the shipyards amount to about \$235 million.

ZIM is carrying on negotiations with the two shipyards regarding the delivery date of the ships, and in the estimation of ZIM’s Management and its Board of Directors, based on the discussions underway and the past experience there is a good chance ZIM will succeed in reaching understandings with respect to an additional postponement of the delivery date and, in turn, postponement of the timetables for payment of the additional advance deposits, in such a manner that there will be no additional advance deposits that ZIM will be required to pay to the shipyards during a period of at least 12 months from the date of the report.

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

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 nine months ended September 30, 2012, ORL recorded an operating loss of about \$40 million and an after-tax loss of about \$126 million.

In addition, as part of the arrangement with the financing banks, in September 2012, a payment in the amount of \$100 million was made out of ORL’s long-term loans. In light of that stated, as at September 30, 2012, the balance of the working capital of the ORL Group was a negative \$287 million. In addition, as at September 30, 2012, the balance of the working capital of Carmel Olefins, a subsidiary of ORL, was a negative \$128 million.

In the period of the report, ORL reached agreements with the financing entities in connection with changes in the financial covenants. As at September 30, 2012, ORL was in compliance with the financial ratios. As at June 30, 2012, Carmel Olefins was not in compliance with financial ratios set for it in the loan agreements with the financing banks. During the third quarter of 2012, Carmel Olefins contacted the financing banks and received waiver letters from them in connection with its non-compliance with the financial ratios. As at September 30, 2012, Carmel Olefins was compliance with the financial ratios set for it in connection with the loans from the financing banks.

On June 26, 2012, Midrug gave notice of entry of the debentures of Carmel Olefins into the tracking list with negative consequences. On August 26, 2012, Midrug notified Carmel Olefins Ltd. regarding reduction of the rating of the debentures of Carmel Olefins, to a rating of A3 with a negative rating outlook.

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

- a) Completion of the project for establishment of a facility for production of clean fuels (hereinafter – “the Hydrocracker”).
- b) Making a structural reorganization 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 Notes 6H and 7F.
- 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.

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

Note 5 – Additional Information (Cont.)

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

1. (Cont.)

After execution of the steps enumerated above, the cash flows of the ORL Group in the nine months ended September 30, 2012 from operating activities is positive, in the amount of about \$485 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.

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

- a. Pursuant to the agreement, ORL will be permitted available access, over a period of 5 years (hereinafter – “the Agreement Period”), to a quantity of 2 million barrels (about 270 thousand tons) of different types of crude oil, owned by the Other Party, including by means of exchange thereof for identical quantities of different types of crude oil owned by ORL.
- b. ORL is to pay the Other Party periodic payments in respect of its liabilities under the agreement. As part of the agreement, ORL will make monetary deposits with the Other Party, in amounts deriving from the different types of crude oil held by the Other Party.
- c. In order to comply with its liabilities under the agreement, the Other Party will store crude oil in facilities of an infrastructure supplier, in accordance with the agreement with the infrastructure supplier.
- d. As part of the agreement, ORL provided the Other Party a “put” option, whereby the Other Party is entitled to sell to ORL, at the end of the Agreement Period, crude oil at a price based on the representative market price of crude oil (spot market price), as it will be at the end of the Agreement Period.
- e. ORL also undertook contingent liabilities to the Other Party and to the infrastructure supplier in connection with certain costs and risks relating to execution of the agreement by them.
- f. Each of the parties is permitted to bring the agreement to an end prior to the end of the Agreement Period upon existence of certain circumstances. In a case where ORL brings the agreement to an 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.

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

Note 5 – Additional Information (Cont.)

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

2. (Cont.)

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.

In addition, in the period of the report ZIM entered into an undertaking with crude oil suppliers for receipt of longer credit terms by about 30-60 days over the credit terms in the prior agreements. Extension of the credit terms bears market interest.

3. On September 4, 2012, ORL’s Board of Directors instructed ORL’s management to examine the possibility of a full merger between ORL and Carmel Olefins, Gadiv and Haifa Basic Oils. To the extent a merger decision is formulated, it will be presented to the competent entities for approval.
4. 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 ORL was removed from the tracking list.

E. I.C. Power Ltd. (hereinafter – “I.C. Power”)

1. In the period of the report, I.C. Power invested about \$304 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.
2. Further to that stated in Note 17.J of the Annual Financial Statements, during the period of the report (up to October 31, 2012), O.P.C. made withdrawals of about \$152 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. A subsidiary of I.C. Power executed a financial close for receipt of bank financing, in the amount of \$591 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 12 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. The financial close was executed in two stages: during August 2012 a financial close was executed, in the amount of \$534 million, from 11 banks and during September 2012 one of the banks increased the amount of the financing and an additional bank joined for a total amount of financing of \$591 million.

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

Note 5 – Additional Information (Cont.)

E. I.C. Power Ltd. (hereinafter – “I.C. Power”) (Cont.)

3. (Cont.)

Israel Corporation is a guarantor in the estimated amount of about \$65 million and, in addition Israel Corporation committed that its holdings in Inkia Energy will not drop below 50.1% (in which it presently holds 100%). These commitments are effective up to the end of the project, which is expected to be completed in 2016.

I.C. Power holds (indirectly) about 74.9% of the said subsidiary. The partner that holds the remaining 25.1% provided a parallel guarantee based on its proportionate share.

F. 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 the land Qoros received the amount of about RMB 259 million (about \$42 million) and it realized a loss of about \$6 million.

2. 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 withdrawals may be made in a period of 3 years ending on July 23, 2015. The currency of the Financing Agreement is the RMB (Qoros may withdraw up to one-third of the loan in dollars). The 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). Pursuant to the Financing Agreement, Qoros placed a lien on rights in the land. As at September 30, 2012, Qoros had withdrawn about RMB 727 million, at an interest rate of 6.55%.

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.

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

Note 5 – Additional Information (Cont.)

G. Better Place Inc. (hereinafter – “Better Place”)

The condensed consolidated financial statements of Better Place as at September 30, 2012 were prepared based on the “going concern” assumption, which is based on use of assets and settlement of liabilities in the ordinary course of business. As at September 30, 2012, Better Place is still in the research and development (R&D) stage, and during the past four years it has made significant investments in R&D as well as in acquisition and installation of broad-scale infrastructures in Israel and in Denmark. Since its establishment, Better Place has accrued losses and negative cash flows from current operating activities, has recorded an accumulated deficit of \$562 million and expects losses and negative cash flows in the upcoming periods.

Better Place is dependent on continuing financing by means of equity or debt until it is able to produce positive cash flows from its current operating activities. Better Place has succeeded in raising capital over the past several years. The money Better Place raised was used to finance the above-mentioned investments, along with its operating expenses in the R&D stage. Recently, Better Place launched its commercial activities and expects to record an increase in the production of revenues upon completion of installation of its network as the year progresses. Future activities, profits and production of cash flows depend on Better Place’s ability to raise additional monies and to produce commercial revenues from operation of its network for replacement of batteries and public and private charging spots, and ultimately to receive the market’s acceptance of its solutions. At this stage, Better Place is seeking to raise additional equity and debt (see Note 5.A.12 above). If under the existing circumstances Better Place does not succeed in raising sufficient financing and/or does not meet its operating plans, it is possible that Better Place will be forced to reduce or discontinue part of its activities. Better Place is presently in the process of reevaluating its business plans and processes. Better Place’s financial statements do not include any adjustments that may result from the above-mentioned uncertainty.

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 September 30, 2012 and, therefore, no provisions have been included in the financial statements relating to this matter.

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

Note 6 – Contingent Liabilities and Commitments (Cont.)

- 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 as at the date of the report, all the payments to the plaintiffs and their representatives under the compromise agreement had been 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, and further to the Corporation’s Immediate Report dated October 2, 2012, wherein the Corporation reported with respect to the decision of the New York District Court to summarily dismiss the claim against the Corporation, and further to the Corporation’s Immediate Report dated October 4, 2012, wherein the Corporation reported with respect to submission of an appeal by the plaintiff of the decision of the New York District Court as stated in the Corporation’s Immediate Report dated October 2, 2012, the Corporation’s legal advisors believe that the Corporation has solid defense arguments against the appeal filed by the plaintiff against the decision of the New York District Court to summarily dismiss the claim against the Corporation.

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.

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

Note 6 – Contingent Liabilities and Commitments (Cont.)

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

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

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.

Israel Corporation Ltd.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
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Note 6 – Contingent Liabilities and Commitments (Cont.)

E. (Cont.)

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.

Subsequent to the period of the report, on October 2, 2012, IPW gave notice of signing agreements where upon their execution IPW will sell all its holdings in Avgol. Closing of the agreements is subject to preconditions providing that they are to be fulfilled by November 28, 2012. Upon closing of the transaction, and after IPW receives NIS 100 million in respect of the sale, the entire lien on the Corporation's shares in ORL will be released.

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 September 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 endeavoring to realize its legal right pursuant to the agreement with the Yam Thetys Partnership.

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

Note 6 – Contingent Liabilities and Commitments (Cont.)

F. (Cont.)

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.

Regarding an agreement for supply of gas with the Tamar Partnership and a compromise agreement with the Yam Thetys Partnership that were signed after the date of the report – see Note 7F below.

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.

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

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.

On September 13, 2012, OPC notified EMG of conclusion of the agreement between them since EMG did not respond to OPC’s demand regarding alternative sources for supply of gas.

Regarding an agreement for supply of gas with the Tamar Partnership that was signed after the date of the report – see Note 7F below.

Israel Corporation Ltd.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
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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.

On May 13, 2012, 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.

Regarding an agreement for supply of gas with the Tamar Partnership and a compromise agreement with the Yam Thetys Partnership that were signed after the date of the report – see Note 7F below.

- 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.

On July 8, 2012, 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 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.

Israel Corporation Ltd.
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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%. 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 commitment of the Corporation to invest up to about \$67 million in Better Place and investment of about \$33 million out of the commitment – see Note 5.A.12.
- B. On November 18, 2012, the Board of Directors of a subsidiary of ICL approved a plan whereby a number of the subsidiary’s employees were allowed to take early retirement prior to the pension age provided by law. In the statement of income for the fourth quarter of 2012, an expense will be included, in the amount of about \$20 million, in respect of the early retirement plan.
- C. Further to that stated in Note 22B.2(b)(iv) to the Annual Financial Statements, on October 16, 2012, a court decision was rendered approving the revised compromise arrangement, whereby the amount of the financing for the educational activities was updated to NIS 1 million.
- D. Regarding signing of agreements for sale of Avgol by IPW – see Note 6E.
- E. On November 20, 2012, I.C. Green Energy Ltd. (which is the company responsible for making investments in renewable energy for the Corporation) signed an agreement for a possible investment in a project involving construction of a thermo-solar power plant having an installed capacity of 60MW in Kibbutz Mashabei Sadeh in the South. Subject to the terms of the agreement, I.C. Green will be issued 90% of the shares of the company holding the project. Establishment of the project, if executed, is estimated at a total cost of about \$260 million. Closing of the transaction is contingent on fulfillment of preconditions.
- F. On November 25, 2012, O.P.C., DSW and ORL signed agreements with Noble Energy Mediterranean Ltd., Delek Drillings Limited Partnership, Isramco Negev 2 Limited Partnership, Avner Fuel Exploration Limited Partnership and Dor Gas Exploration Limited Partnership (hereinafter – “the Tamar Partnership”) for supply of gas, as detailed below:

Israel Corporation Ltd.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
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Note 7 – Events Occurring Subsequent to the Period of the Report (Cont.)

F. (Cont.)

- 1) O.P.C. signed an agreement for supply of gas to the power station, having a production capacity of about 440 megawatts, which O.P.C. is endeavoring to construct in Mishor Rotem, for a period of 16 years, commencing from the earlier of the date of supply of the gas to the power station or the date on which O.P.C. will consume the entire contractual quantity. In addition, each of the parties has an option to extend the agreement up to an additional two years upon fulfillment of conditions spelled out in the agreement, or until O.P.C. consumes the entire contractual quantity, whichever occurs first (hereinafter – “the Agreement”).

The price of the gas will be linked to the changes in “the production component”, which is the part of the TAOZ tariff and partly to the exchange rate of the dollar that includes a “floor” price.

Pursuant to the Agreement, O.P.C. will purchase natural gas from the Tamar Partnership where the total contractual quantity under the Agreement is BCM 10.6 (one billion cubic meters). O.P.C. committed to purchase from or pay to the Tamar Partnership (“Take or Pay”) with respect to a minimum annual quantity of gas and in accordance with a mechanism provided in the Agreement with the Tamar Partnership.

In the Agreement, O.P.C. is granted an option to reduce the minimum annual quantity, such that it will not exceed 50% of the average annual quantity of gas actually consumed in the three years preceding the notification of exercise of the option, subject to adjustments provided in the Agreement. To the extent the minimum annual quantity is reduced, the other contractual quantities provided in the Agreement will be reduced correspondingly. The option may be exercised during the period commencing from the beginning of the fifth year after the start of supply of the gas under the Agreement or on January 1, 2018 (whichever occurs later) and will end at the end of the seventh year after the start of supply of the gas under the Agreement or on December 31, 2020 (whichever occurs later). If O.P.C. gives notice of exercise of the option, as stated, the quantity as stated above will be reduced at the end of one year from the date the notice is provided and up to the end of the period of the Agreement.

During the interim period, commencing from fulfillment of the conditions detailed in the Agreement (hereinafter – “the Interim Period”), supply of the gas to O.P.C. will be subject to the quantities of natural gas available at that time, after supply of the gas to other customers of the Yam Thetys project and other customers of the Tamar Partnership with which agreements were signed at the time of the Agreement with O.P.C. The Interim Period will come to an end upon completion of the project (if completed) for expansion of the supply capacity if the transport system from the Tamar well by the Tamar Partnership.

In the estimation of the Tamar Partnership, the aggregate scope of the Agreement is estimated at about \$2.5 billion (not including the option to reduce the quantities, as stated above). The Agreement is contingent on receipt of approval of the Restrictive Business Practices Authority.

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

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

F. (Cont.)

1) (Cont.)

The Corporation may be required to provide a guarantee in favor of the Tamar Partnership, in the amount provided in the Agreement, subject to fulfillment of the conditions stipulated in the Agreement.

- 2) DSW signed a short-term supply agreement with the partners in the Tamar Partnership for acquisition of additional quantities of gas, which together with the quantities of gas to be acquired under the agreement with Yam Thetys, should provide the company all its gas needs in that period, including the quantities it needs to operate the power station it intends to construct in Sdom (hereinafter – “the Tamar Agreement”). The period of the Tamar Agreement will commence upon operation of the Sdom power station, which is expected to take place in the second quarter of 2015, and will come to an end on September 30, 2017.

The price of the gas provided in the Tamar Agreement is linked to the electricity production tariff, as it will be determined from time to time by the Authority for Public Services – Electricity, and includes a “floor” price.

During the interim period, supply of the gas to DSW will be subject to the quantities of natural gas available at that time, after supply of the gas to other customers of the Yam Thetys partners and of Tamar partners with which agreements were signed prior to the signing of the Tamar Agreement. The Interim Period will come to an end upon completion of the project (if completed) for expansion of the supply capacity if the transport system from the Tamar well.

The Tamar Agreement is contingent on receipt of approval of the Restrictive Business Practices Authority, if and to the extent such approval is required.

DSW anticipates that the amount of the annual consumption of the gas, after operation of the power station, as is expected to be received based on the Yam Thetys agreement and the Tamar Agreement, will be about BCM 0.76.

Concurrent with the said agreement, DSW signed a compromise agreement with the partners in the Yam Thetys well that was intended to settle the disputes that arose between the parties as a result of the notification of the Yam Thetys Partnership. Pursuant to the compromise agreement, the Yam Thetys partners agreed to extend the Yam Thetys agreement up to September 30, 2017.

- 3) ORL signed an agreement with the partners in the Tamar Partnership for purchase of natural gas that will serve as a source of energy and as raw material for the factories of the ORL Group (hereinafter – “the ORL Agreement”).

The principles of the ORL Agreement are set forth below:

- The total quantity of gas ORL is expected to purchase from the Tamar Partnership is about 5.8 BCM.

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

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

F. (Cont.)

3) (Cont.)

- The period of the ORL Agreement is up to seven years or until ORL consumes the entire quantity of gas in the ORL Agreement, whichever occurs first, subject to ORL's right to extend the Agreement for a period of up to two years, if up to the end of the sixth year of the ORL Agreement ORL will not actually have received a proportionate amount of the quantity detailed above.
- Supply of the gas will commence on the date on which the Tamar Group starts to operate the field it owns.
- The aggregate scope of the ORL Agreement may reach about \$1.3 billion. The actual scope will be impacted by all of the conditions and mainly the fuel price and the scope and rate of consumption of the gas.
- The price of the gas is determined according to a formula that is based mainly on the fuel price (including "floor" and "ceiling" prices) and in a small part on the price of the production component in the electricity tariff (with a "planned floor" price).
- During the interim period, supply of the gas to ORL pursuant to the ORL Agreement will be subject to the quantities of natural gas available at that time, after supply of the gas based on the agreements signed with the Yam Thetys Partnership including the agreement signed by ORL with the Yam Thetys Partnership, as well as on agreements signed by the Tamar Partnership at the time of the ORL Agreement.

The ORL Agreement includes additional consents that are customary in agreements of this type, including a commitment by ORL to purchase or pay (Take or Pay) in respect of a minimum annual quantity of gas, in an amount and in accordance with a mechanism provided in the ORL Agreement, a compensatory mechanism in connection with deficient supply, quality of the gas, limits of responsibility, an arbitration mechanism, etc.

At the same time, as a result of conversations held between the parties, on November 25, 2012, a compromise agreement was signed between the Yam Thetys Partnership and ORL, in the framework of which the parties agreed as follows (hereinafter – "the ORL Compromise Agreement"):

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

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

F. (Cont.)

3) (Cont.)

In the ORL Compromise Agreement, ORL confirmed that it does not dispute the claim of the Yam Thetys Partnership that reduction of the supply commencing from January 2012 derived from an Act of G-d. Commencing from August 2012, ORL will only pay for gas actually supplied and not based on the monthly payments provided in the agreement. An amount of up to about \$34 million, out of an amount of about \$59 million paid by ORL to the Yam Thetys Partnership on account of gas not yet supplied, will be offset against the amounts due to the Yam Thetys Partnership for the gas supplied to ORL commencing from August 2012 and up to the start of supply of the gas from the Tamar project. The balance of the accumulated amount, in the amount of about \$25 million, will serve as a payment for gas that ORL will consume commencing from the time the gas is supplied from Tamar and up to the end of the period of the Yam Thetys agreement. The sellers will not be required to sell to ORL and ORL will be required to purchase gas beyond the said amount of \$25 million. From the date of supply of gas from the Tamar project, ORL will pay for the quantities consumed in the framework of the Yam Thetys agreement based on the price determined in the agreement. The period of the Yam Thetys agreement will be extended up to the earlier of the end of 2016 or the date on which ORL consumes the full quantity of gas determined in said agreement.

The agreement requires approval of the Supervisor of Restrictive Business Practices.

G. On November 26, 2012, the Corporation's Board of Directors approved a private issuance of 132,960 options exercisable for shares of the Corporation, to up to 15 officers and employees of the Corporation. The offer includes issuance of 35,000 options to the Chairman of the Board of Directors and 35,000 options to the CEO.

In addition, the Board of Directors approved, after approval of Audit Committee, that up to an additional 8,000 options for acquisition of Corporation shares may be issued in the future to additional officers and employees of the Corporation, based on the options' plan and subject to approval of concrete issuances in accordance with law.

The issuance to the Chairman of the Board of Directors is subject to approval of the General Meeting of the Corporation's shareholders.

The options will be issued to the offerees in accordance with provisions of Section 102(B)(2) of the Income Tax Ordinance pursuant to the Capital Gain track, through a trustee.

The options are non-negotiable options, where in accordance with each thereof the offeree will be entitled to acquire from the Corporation one ordinary share of the Corporation's NIS 1 par value share capital.

Entitlement of each of offerees to receive the options issued at the present time will be in three equal increments on June 1, 2014, 2015 and 2016.

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

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

G. (Cont.)

The exercise price of each option will be equal to NIS 2,500 per share. The exercise price will be determined based on the closing price of a Corporation share on the Stock Exchange on the date of the approval by the Board of Directors, that is, the closing price determined on November 26, 2012. The exercise price will be linked to the Consumer Price Index (CPI) “known” on November 26, 2012 and up to the exercise date, and it is subject to adjustments.

The options may be exercised (subject to the terms of the plan) as follows: the options included in the plan in the first increment may be exercised commencing from June 1, 2014 and up to November 25, 2015; the options included in the second increment may be exercised commencing from June 1, 2015 and up to May 25, 2016; the options included in the third increment may be exercised commencing from June 1, 2016 and up to May 25, 2017.

It is clarified that at the end of every exercise period as stated above (subject to the terms of the plan), the relevant options that are not exercised will expire automatically.

The economic value of an option included in the first increment is: about NIS 597.9; in the second increment is: about NIS 629.2 and in the third increment is: about NIS 895.3.

The economic value of the said options was calculated based on the Black and Scholes formula taking into account the closing price of a share of the Corporation’s stock on the Stock Exchange on November 26, 2012, NIS 2,500 per share, where the annual standard deviation of the share is: for the first increment – 38.8%; for the second increment – 37.1%; and for the third increment – 46.1%. The annual discount rate is: for the first increment – 0.16%; for the second increment –0.05%; and for the third increment 0.22%.

In calculation of the economic value above, the following assumptions were taken into account:

All the options will be exercised six months prior to the end of the exercise period; calculation of the economic value does not take into account the fact that the options will not be registered for trading on the stock exchange, and does not take into account the vesting period and the restriction period.

The cost of the benefit embedded in the options issued, as stated, which is based on the fair value on the date of their grant, amounted to about NIS 94 million. This amount will be recorded on the statement of income over the vesting period of each increment.

Israel Corporation Ltd.

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

As at September 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 September 30, 2012
Unaudited

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To the Shareholders of Israel Corporation Ltd.

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

Introduction

We have reviewed the separate-company interim financial information presented in accordance with Regulation 38.D of the Securities Regulations (Periodic and Immediate Reports), 1970, of Israel Corporation Ltd. (hereinafter – “the Corporation”) as at September 30, 2012 and for the periods of nine 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 September 30, 2012 and the Corporation’s share in its loss is about \$6 million and in its income is about \$2 million for the nine-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 6.A 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 6.B and 6.H regarding the dependency of an associated company on receipt of services from infrastructure companies and suppliers of natural gas, that stated in Note 5.D.1 regarding the financial position of the associated company and of certain of its investee companies 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.
3. That stated in Notes 5.C.4 and 5.C.5 regarding estimates of a subsidiary in connection with the forecasted cash flows deriving from, among other things, purchase agreements with shipyards.

Somekh Chaikin
Certified Public Accountants (Isr.)

November 26, 2012

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

	At September 30		At December 31
	2012	2011	2011
	(Unaudited)	(Unaudited)	(Audited)
	In Millions of U.S. Dollars		
<u>Current Assets</u>			
Cash and cash equivalents	118	200	476
Short-term deposits	760	450	247
Loans to investee companies	93	10	11
Other receivables and debit balances	1	1	1
Derivative instruments	50	66	55
Income taxes receivable	12	17	13
Total current assets	<u>1,034</u>	<u>744</u>	<u>803</u>
	-----	-----	-----
<u>Non-Current Assets</u>			
Investments in investee companies	3,172	*3,306	*3,220
Investments in other companies	1	6	3
Loans to investee companies	656	617	610
Debit balances, including derivative instruments	307	295	276
Total non-current assets	<u>4,136</u>	<u>4,224</u>	<u>4,109</u>
	-----	-----	-----
Total assets	<u>5,170</u>	<u>4,968</u>	<u>4,912</u>

* 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 September 30, 2012
Condensed Interim Statements of Financial Position Information

	At September 30	At December 31
	2012	2011
	(Unaudited)	(Audited)
	In Millions of U.S. Dollars	
<u>Current Liabilities</u>		
Current maturities in respect of non-current liabilities	541	417
Other payables and credit balances	18	15
Derivative instruments	36	34
Total current liabilities	595	466
	-----	-----
<u>Non-Current Liabilities</u>		
Loans from banks	756	570
Debentures	1,172	1,307
Long-term liabilities, including derivative instruments	100	88
Total non-current liabilities	2,028	1,965
	-----	-----
Total liabilities	2,623	2,431
	-----	-----
<u>Equity</u>		
Share capital and premium	285	285
Capital reserves	121	105
Capital reserve for transactions with controlling shareholder	166	125
Retained earnings	1,975	*2,022
Total equity attributable to the owners of the Corporation	2,547	2,466
	-----	-----
Total liabilities and equity	5,170	4,912
	-----	-----

* Retroactive application of accounting policy – see Note 3 to the Corporation’s consolidated financial statements.

Amir Elstein
Chairman of the Board of Directors

Nir Gilad
CEO

Avisar Paz
CFO

Approval date of the financial statements: November 26, 2012

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

	For the				
	Nine Months Ended		Three Months Ended		Year Ended
	September 30		September 30		December 31
	2012	2011	2012	2011	2011
	(Unaudited)		(Unaudited)		(Audited)
In Millions of U.S. Dollars					
Administrative and general expenses	(10)	(15)	(3)	(5)	(19)
Other expenses	(1)	–	(1)	–	–
Other income	<u>6</u>	<u>19</u>	<u>1</u>	<u>2</u>	<u>19</u>
Operating income (loss)	<u>(5)</u>	4	<u>(3)</u>	(3)	–
Financing expenses	(125)	(153)	(45)	–	(230)
Financing income	<u>69</u>	<u>79</u>	<u>30</u>	<u>3</u>	<u>128</u>
Financing expenses, net	<u>(56)</u>	(74)	<u>(15)</u>	3	(102)
Share in income of investee companies, net	<u>238</u>	*290	<u>188</u>	*146	*289
Income before taxes on income	177	220	170	146	187
Taxes on income (tax benefit)	<u>17</u>	<u>14</u>	<u>11</u>	<u>(5)</u>	<u>32</u>
Income for the period attributable to the owners of the Corporation	<u>160</u>	<u>206</u>	<u>159</u>	<u>151</u>	<u>155</u>

* 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 September 30, 2012
Condensed Interim Statements of Comprehensive Income Information

	For the				
	Nine Months Ended September 30		Three Months Ended September 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	<u>160</u>	<u>*206</u>	<u>159</u>	<u>*151</u>	<u>*155</u>
Components of other comprehensive income (loss)					
Effective portion of the change in fair value of cash flow hedges	2	(3)	2	(2)	(3)
Net change in fair value of cash flow hedges transferred to the statement of income	1	2	–	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	<u>9</u>	<u>(25)</u>	<u>34</u>	<u>(59)</u>	<u>(41)</u>
Other comprehensive income (loss) for the period, net of tax	<u>12</u>	<u>(24)</u>	<u>36</u>	<u>(60)</u>	<u>(40)</u>
Total comprehensive income (loss) for the period attributable to the owners of the Corporation	<u>172</u>	<u>182</u>	<u>195</u>	<u>91</u>	<u>115</u>

* 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 September 30, 2012
Condensed Interim Statements of Cash Flows Information

	For the				
	Nine Months Ended September 30		Three Months Ended September 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	160	*206	159	*151	*155
Adjustments:					
Financing expenses, net	54	63	14	(6)	89
Share in income of investee companies, net	(238)	*(290)	(188)	*(146)	*(289)
Capital gains, net	(6)	(19)	(1)	(2)	(19)
Share-based payment transactions	4	10	1	3	11
Loss on investment in available for sale securities	1	10	-	2	13
Taxes on income	<u>17</u>	<u>14</u>	<u>11</u>	<u>(5)</u>	<u>32</u>
	(8)	(6)	(4)	(3)	(8)
Change in receivables and income tax receivable	(13)	1	(19)	14	(17)
Change in payables	<u>-</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>-</u>
	(21)	(5)	(22)	11	(25)
Dividend received	<u>435</u>	<u>400</u>	<u>237</u>	<u>135</u>	<u>515</u>
Net cash provided by operating activities	414	395	215	146	490
	-----	-----	-----	-----	-----
Cash flows from investing activities					
Investments in investee and other companies	(25)	-	-	-	(55)
Short-term deposits and loans, net	(592)	(400)	(645)	(412)	(200)
Provision of long-term loans to investee companies	(155)	(102)	-	(51)	(101)
Collection of long-term loans from investee companies	-	29	-	-	29
Interest received	13	7	3	3	10
Proceeds from sale of derivatives, net	<u>17</u>	<u>21</u>	<u>6</u>	<u>21</u>	<u>24</u>
Net cash used in investing activities	(742)	(445)	(636)	(439)	(293)
	-----	-----	-----	-----	-----
Cash flows from financing activities					
Acquisition of non-controlling interests	(8)	-	-	-	-
Dividend paid	(120)	(70)	-	-	(70)
Receipt of long-term loans and issuance of debentures	504	100	114	50	232
Repayment of long-term loans and debentures	(309)	(136)	(113)	(113)	(238)
Interest paid	(101)	(95)	(49)	(43)	(95)
Receipt from (payment) for settlement of derivatives used for hedging	<u>(1)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided by (used in) financing activities	(35)	(201)	(48)	(106)	(171)
	-----	-----	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	(363)	(251)	(469)	(399)	26
Cash and cash equivalents at the beginning of the period	476	458	582	599	458
Effect of exchange rate fluctuations on balances of cash and cash equivalents	<u>4</u>	<u>(7)</u>	<u>4</u>	<u>-</u>	<u>(8)</u>
Cash and cash equivalents at the end of the period	<u>117</u>	<u>200</u>	<u>117</u>	<u>200</u>	<u>476</u>

* 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 September 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:

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

2. Commitments and Significant Transactions with Investee Companies

- A. During the nine months and three months ended September 30, 2012, dividends were received from investee companies, in the amounts of about \$435 million and about \$237 million, respectively.
- B. Regarding additional information with respect to the Corporation and significant transactions with investee companies – see Note 5 to the consolidated financial statements.

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.

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 September 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, Deputy CEO, Legal Advisor 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 Annual Report regarding the effectiveness of the internal control over the financial reporting and the disclosure, which was attached to the Periodic Report for the period ended December 31, 2011 (hereinafter – “the Latest Annual Report regarding the Internal Control”), the Board of Directors and the Management evaluated the entity’s internal control; based on this evaluation, the entity’s the Board of Directors and the Management reached the conclusion that the internal control as stated, as at December 31, 2011, is 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 Annual 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 September 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.

November 26, 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 September 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.

November 26, 2012

Avisar Paz, CFO



BETTER PLACE, INC. AND SUBSIDIARIES

Condensed Consolidated Financial Statements

September 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 September 30, 2012, and the related condensed consolidated statements of operations, comprehensive loss, and changes in stockholders' equity for the three- and nine-month periods ended September 30, 2012 and 2011, and the condensed consolidated statements of cash flows for the nine months ended September 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

November 21, 2012

BETTER PLACE, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Financial Position
September 30, 2012 (Unaudited) and December 31, 2011
(In thousands, except share information)

Assets	2012	2011
Property and equipment (note 5)	\$ 216,293	113,839
Restricted cash	18,659	9,260
Intangible assets	1,000	1,000
Other assets	10,174	3,688
Total noncurrent assets	<u>246,126</u>	<u>127,787</u>
Inventories	9,755	635
Trade accounts receivables	1,439	—
Prepayments and other current assets	15,510	12,097
Restricted cash	10,544	1,142
Marketable securities	2,228	7,164
Cash and cash equivalents	26,776	293,252
Total current assets	<u>66,252</u>	<u>314,290</u>
Total assets	<u>\$ 312,378</u>	<u>442,077</u>
Stockholders' Deficit		
Common stock, \$0.0001 par value. Authorized 416,666,667 shares; outstanding 60,764,465 and 60,644,748 shares at September 30, 2012 and December 31, 2011, respectively (note 6)	\$ —	—
Share premium	45,974	42,258
Accumulated other comprehensive loss	(11,863)	(9,406)
Accumulated deficit	(561,455)	(358,480)
Total Better Place, Inc. stockholders' deficit	<u>(527,344)</u>	<u>(325,628)</u>
Noncontrolling interest (note 6)	1,846	5,928
Total stockholders' deficit	<u>(525,498)</u>	<u>(319,700)</u>
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 September 30, 2012 and December 31, 2011 (note 6 and 7)	101,882	87,235
Series B redeemable convertible preferred stock. Authorized 140,000,020 shares; issued and outstanding 140,000,020 at September 30, 2012 and December 31, 2011 (note 6 and 7)	421,210	397,517
Series C redeemable convertible preferred stock. Authorized 77,092,505 shares; issued and outstanding 44,275,893 at September 30, 2012 and December 31, 2011 (note 6 and 7)	212,788	200,758
Derivative financial instruments (note 7)	5,401	4,124
Loans and borrowings	20,182	6,299
Other long-term liabilities	16,186	5,176
Total long-term liabilities	<u>777,649</u>	<u>701,109</u>
Trade payables	25,808	34,108
Other payables	34,419	26,560
Total current liabilities	<u>60,227</u>	<u>60,668</u>
Total liabilities	<u>837,876</u>	<u>761,777</u>
Total stockholders' deficit and liabilities	<u>\$ 312,378</u>	<u>442,077</u>

See accompanying notes to condensed consolidated financial statements.

BETTER PLACE, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(Unaudited)
(In thousands)

	Three months ended		Nine months ended	
	September 30		September 30	
	2012	2011	2012	2011
Net sales	\$ 3,081	—	5,824	—
Cost of goods sold	2,618	—	5,027	—
Gross profit	463	—	797	—
Operating expenses:				
Sales and marketing	10,064	13,488	33,648	39,249
Research and development	15,976	21,781	49,037	57,126
General and administrative	7,035	8,708	30,055	24,427
Operations	21,987	9,001	42,776	24,453
Total operating expenses	55,062	52,978	155,516	145,255
Loss from operations	(54,599)	(52,978)	(154,719)	(145,255)
Finance income (expense) (note 3)	991	(1,797)	(1,191)	2,501
Mark-to-market (loss) gain on derivative instruments (notes 3 and 8)	—	—	(6)	35,878
Interest expense (return to preferred stockholders) (notes 3 and 7)	(17,238)	(12,147)	(50,370)	(35,367)
Net finance cost	(16,247)	(13,944)	(51,567)	3,012
Loss before income tax	(70,846)	(66,922)	(206,286)	(142,243)
Income tax benefit (expense) (note 4)	(2,206)	83	(1,017)	(618)
Net loss	(73,052)	(66,839)	(207,303)	(142,861)
Net loss attributable to noncontrolling interest	1,865	1,030	4,328	3,044
Net loss attributable to Better Place, Inc. Stockholders	\$ (71,187)	(65,809)	(202,975)	(139,817)

See accompanying notes to condensed consolidated financial statements.

BETTER PLACE, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Loss

(Unaudited)

(In thousands)

	Three months ended September 30		Nine months ended September 30	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Loss for the period	\$ (73,052)	(66,839)	(207,303)	(142,861)
Other comprehensive income (loss):				
Foreign currency translation differences for foreign operations	1,247	(9,344)	(2,385)	(6,515)
Net change in fair value of available-for-sale securities	11	—	1	(6)
Comprehensive loss for the period, net of income tax	<u>\$ (71,794)</u>	<u>(76,183)</u>	<u>(209,687)</u>	<u>(149,382)</u>
Attributable to:				
Better Place, Inc.	\$ (70,104)	(75,153)	(205,432)	(146,338)
Noncontrolling interest	<u>(1,690)</u>	<u>(1,030)</u>	<u>(4,255)</u>	<u>(3,044)</u>
	<u>\$ (71,794)</u>	<u>(76,183)</u>	<u>(209,687)</u>	<u>(149,382)</u>

See accompanying notes to condensed consolidated financial statements.

BETTER PLACE, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Changes in Stockholders' Equity
Three and Nine months ended September 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 adjustment	—	—	—	530	—	—	530
Net change in fair value of available-for-sale securities	—	—	—	4	—	—	4
Total comprehensive income (loss) for the period	—	—	—	534	(54,460)	(875)	(54,801)
Transactions with owners, recorded directly in equity:							
Stock-based compensation	—	—	481	—	—	—	481
Exercise of common stock options	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 adjustment	—	—	—	2,299	—	—	2,299
Net change in fair value of available-for-sale securities	—	—	—	(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, net	—	—	66	—	—	7,093	7,159
Stock-based compensation	—	—	826	—	—	—	826
Exercise of common stock options	170	—	104	—	—	—	104
Balances as of June 30, 2011	60,436	—	34,899	3,895	(219,787)	(1,947)	(182,940)
Total comprehensive income (loss) for the period:							
Net loss	—	—	—	—	(65,809)	(1,030)	(66,839)
Other comprehensive income:							
Currency translation adjustment	—	—	—	(9,344)	—	—	(9,344)
Net change in fair value of available-for-sale securities	—	—	—	—	—	—	—
Total comprehensive income (loss) for the period	—	—	—	(9,344)	(65,809)	(1,030)	(76,183)
Transactions with owners, recorded directly in equity:							
Stock-based compensation	—	—	2,498	—	—	—	2,498
Exercise of common stock options	174	—	211	—	—	—	211
Balances as of September 30, 2011	60,610	\$ —	37,608	(5,449)	(285,596)	(2,977)	(256,414)
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 adjustment	—	—	—	3,473	—	288	3,761
Net change in fair value of available-for-sale securities	—	—	—	(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 compensation	—	—	1,407	—	—	61	1,468
Exercise of common stock options	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 adjustment	—	—	—	(7,003)	—	(390)	(7,393)
Net change in fair value of available-for-sale securities	—	—	—	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, net	—	—	1,166	—	—	55	1,221
Stock-based compensation	—	—	51	—	—	—	51
Exercise of common stock options	47	—	51	—	—	—	51
Balances as of June 30, 2012	60,714	—	44,910	(12,946)	(490,268)	3,479	(454,825)
Total comprehensive income (loss) for the period:							
Net loss	—	—	—	—	(71,187)	(1,865)	(73,052)
Other comprehensive income:							
Currency translation adjustment	—	—	—	1,072	—	175	1,247
Net change in fair value of available-for-sale securities	—	—	—	11	—	—	11
Total comprehensive income (loss) for the period	—	—	—	1,083	(71,187)	(1,690)	(71,794)
Transactions with owners, recorded directly in equity:							
Stock-based compensation	—	—	1,007	—	—	57	1,064
Exercise of common stock options	51	—	57	—	—	—	57
Balances as of September 30, 2012	60,765	\$ —	45,974	(11,863)	(561,455)	1,846	(525,498)

See accompanying notes to condensed consolidated financial statements.

BETTER PLACE, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Nine months ended September 30, 2012 and 2011

(Unaudited)

(In thousands)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Net loss attributable to Better Place, Inc.	\$ (202,975)	(139,817)
Net loss attributable to noncontrolling interest	(4,328)	(3,044)
Net loss	<u>(207,303)</u>	<u>(142,861)</u>
Adjustments to reconcile net loss to net cash used in operating activities:		
Net finance cost (income)	51,567	(3,012)
Income tax expense	1,017	618
Stock-based compensation to employees	3,753	3,805
Stock-based compensation to non employees	73	216
Depreciation and amortization	10,363	6,522
Loss on disposal of equipment	123	10
Changes in operating assets and liabilities:		
Trade accounts receivables	(1,383)	—
Inventories	(9,390)	—
Prepayments, other current assets, and other assets	(9,624)	2,807
Accounts payable	(7,454)	13,101
Other accrued liabilities	15,079	4,627
Accrued compensation and employee benefits	2,343	1,530
Interest paid	(74)	(110)
Interest received	2,420	2,256
Income tax paid	(1,021)	(3,791)
Net cash used in operating activities	<u>(149,511)</u>	<u>(114,282)</u>
Cash flows from investing activities:		
Purchases of marketable securities	(92,653)	(88,469)
Proceeds from sales and maturities of marketable securities	96,958	257,216
Change in restricted cash	(18,987)	(978)
Purchase of property and equipment	(105,563)	(47,945)
Proceeds from the sale of property and equipment	79	74
Net cash (used in) provided by investing activities	<u>(120,166)</u>	<u>119,898</u>
Cash flows from financing activities:		
Advance from government agencies	610	—
Proceeds from borrowings	4,155	—
Repayment of borrowings	(535)	—
Proceeds from exercise of common stock options	136	315
Proceeds from sales of subsidiary shares to noncontrolling interest	—	7,159
Net cash provided by financing activities	<u>4,366</u>	<u>7,474</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(1,165)</u>	<u>(2,093)</u>
Net increase (decrease) in cash and cash equivalents	<u>(266,476)</u>	<u>10,997</u>
Cash and cash equivalents at beginning of period	<u>293,252</u>	<u>130,115</u>
Cash and cash equivalents at end of period	<u>\$ 26,776</u>	<u>141,112</u>
Schedule of noncash transactions:		
Acquisition of property and equipment	\$ 10,453	6,513

See accompanying notes to condensed consolidated financial statements.

BETTER PLACE, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2012

(Unaudited)

(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 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 November 21, 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.

BETTER PLACE, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2012

(Unaudited)

(c) *Going-Concern Basis of Accounting*

The accompanying condensed consolidated financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The Company remains in the development stage at September 30, 2012 and over the past four years has made significant investments in research and development and in the purchase and installation of large-scale infrastructure in Israel and Denmark. During this period, the Company has incurred net losses and negative cash flow from operations and currently has an accumulated deficit of \$561.5 million, and expects to have losses and negative cash flow in future periods.

The Company is ultimately dependent upon continued equity or debt financing until the Company is able to generate positive operating cash flows. The Company obtained equity investments over the past several years (see note 6). These funds have been used to finance the investments noted above, along with the operating costs during the development stage period. The Company recently launched its commercial operations and expects to realize increased revenue generation with the completion of its networks later this year. Future operations, profitability, and cash flow generation are dependent on the Company's ability to further raise funds and to commercialize the network of battery switch and public/private charge spots and ultimately market acceptance of the Company's solution. The Company is currently seeking additional equity and debt financings (see note 15 regarding subsequent event). If circumstances occur such that the Company is unable to secure adequate amounts of financing and/or does not meet its operating plans, the Company may be required to curtail and/or discontinue some of its operations. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

(3) Net Finance Cost (in thousands)

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Finance income:				
Interest income on bank deposits	\$ 125	543	509	1,722
Mark-to-market gain on derivative instruments	—	—	—	35,878
Other income, net	866	—	—	779
Finance cost:				
Interest expense (return to preferred stockholders)	(17,238)	(12,147)	(50,370)	(35,367)
Mark-to-market loss on derivative instruments	—	—	(6)	—
Other expense, net	—	(2,340)	(1,700)	—
Net finance cost	\$ (16,247)	(13,944)	(51,567)	3,012

BETTER PLACE, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2012

(Unaudited)

(4) Income Taxes (in thousands)

Income taxes are accounted for under the asset and liability method. The net income tax expense of \$2,206 and \$1,017 for the three and nine months ended September 30, 2012, and income tax benefit of \$83 and income tax expense of \$618 for the three and nine months ended September 30, 2011, 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 nine-month periods ended September 30, 2012 and 2011, the Company acquired assets with a cost of approximately \$116,000 and \$54,000, respectively. The investment in the nine-month period ended September 30, 2012 mainly relate to the construction of the Company network of battery switch stations and public/private charge spots.

(6) Capital

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

	Common stock	
	September 30, 2012	December 31, 2011
Issued at beginning of period	60,645	60,261
Exercise of share options	120	384
Issued at end of period	60,765	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

BETTER PLACE, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2012

(Unaudited)

offering in which (i) the public offering price per share is at least one and one-half times the sum of the Series C 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 September 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.

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(c) *Noncontrolling Interests*

As a 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**

	Series A	Series B	Series C	Total
	(In thousand)			
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
Return to preferred stockholders	5,013	8,108	4,117	17,238
Balance as of September 30, 2012	\$ 101,882	421,210	212,788	735,880

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 September 30, 2012 and December 31, 2011, the fair value of the redeemable preferred stock is approximately \$963 million and \$940 million, respectively, while the fair value of the redeemable preferred stock dividends is approximately \$146 million and \$96 million, respectively.

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

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(8) Derivative Financial Instruments

- (a) A subsidiary agreed in 2009 to issue derivative instruments to an investor. The main terms for these instruments that remain relevant at September 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 International Accounting Standards (IAS) 32, *Financial Instruments: Disclosure and Presentation*, 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 \$12.9 million (€10.0 million) that the total amount of funds raised by the subsidiary, including debt, prior to such Liquidity Event is less than \$192.9 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 \$77.2 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 \$77.2 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 \$64.3 million (€50 million) for 5.1% ownership and (b) exercise price of \$12.9 million (€10.0 million) for 2.4% ownership interest.

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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 September 30, 2012 and 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 million and \$2.9 million benefit in the nine 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.

- (b) Pursuant to the Finance Contract entered into between a European Bank and the Company dated July 12, 2012 (**Finance Contract**), the Company has agreed to issue a warrant for up to 1,079,207 shares of its Series C Preferred Stock (the **Warrant**). The number of shares issuable pursuant to the Warrant shall be adjusted from time to time based on any adjustments to the Series C Preferred Stock by the Company.

The Warrant may be exercised, in whole or in part, until May 11, 2020 (**Termination Date**) up to the number of Vested Warrant Shares; in the event that the European Bank issues a notice to exercise, the Company shall have the option either to issue the number of Vested Warrant Shares set forth in the notice in a cashless exercise or to redeem the Warrant, at a calculated price. Vesting shall occur over time based on an agreed upon formula calculated as a product of the aggregate amount of the loan outstanding from time to time.

The Warrant is freely transferable by the European Bank, subject to the approval of The Company in the event of a transfer to certain entities as described in the Warrant Agreement. The Company shall have the right at any time to offer to purchase the Warrant from the European Bank, provided that the European Bank is under no obligation to sell the Warrant.

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(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 2 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 September 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.

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As of September 30, 2012, approximately 33,596,073 shares were reserved for issuance to employees, consultants, and directors under the plans, and 27,862,957 shares and 2,037,970 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, 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 September 30, 2012 and December 31, 2011, approximately 51,080,000 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 \$1,078 and \$2,637 for the three-month periods ended September 30, 2012 and 2011, respectively. The total stock-based compensation expense recorded under the above plans was \$3,826 and \$4,021 for the nine-month periods ended September 30, 2012 and 2011, respectively.

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

Employee Stock Options outstanding as of September 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	20,573,241	8.01	6,820,376	7.87

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Nonemployee Stock Options outstanding as of September 30, 2012 are as follows:

	<u>Outstanding</u>		<u>Exercisable</u>	
	<u>Number of shares</u>	<u>Weighted average remaining contractual life (years)</u>	<u>Number of shares</u>	<u>Weighted average remaining contractual life (years)</u>
<u>Exercise price</u>				
\$ 0.85 – 1.55	1,560,802	7.16	1,180,192	7.05

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

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

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

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

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Disclosures of Share Option Program

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

	<u>Weighted average exercise price</u>	<u>Number of options</u>
Outstanding at December 31, 2011	\$ 1.06	20,483,543
Granted during the period	1.57	3,459,899
Forfeited during the period	1.09	(1,689,682)
Exercised during the period	1.08	<u>(119,717)</u>
Outstanding at September 30, 2012	1.14	<u>22,134,043</u>
Vested and expected to vest	1.14	20,048,364

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:

	<u>Stock option program</u>
Fair value of stock options and assumptions:	
Fair value at grant date	\$ 0.85-1.29
Share price at grant date	1.31-1.65
Exercise price	1.31-1.65
Expected volatility (weighted average volatility)	71%-84%
Option life (expected weighted average life)	5-9 years
Expected dividends	—
Risk-free interest rate (based on government bonds)	0.8%-2.9%

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.

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(c) *Employee Expenses*

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
	(In thousands)			
Stock options granted in 2009	\$ 196	583	600	749
Stock options granted in 2010	132	901	464	1,648
Stock options granted in 2011	444	1,014	1,683	1,408
Stock options granted in 2012	292	—	1,006	—
Total expense recognized as employee costs	\$ 1,064	2,498	3,753	3,805

(d) *Key Management Personnel Compensation*

Grant date/employees entitles	Number of options Nine months ended September 30		Contractual life of option
	2012	2011	
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	3,009,899	4,981,900	10 years
Total share options	3,359,899	5,331,900	

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(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	
	September 30, 2012	December 31, 2011
Marketable securities*	\$ 3,163	131,625
Trade accounts receivables	1,439	—
Prepayments and other current assets	15,510	12,097
Money market funds	173	135,748
Restricted cash	29,203	10,402
Cash	25,668	33,043
	<u>\$ 75,156</u>	<u>322,915</u>

* 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	
	September 30, 2012	December 31, 2011
United States	\$ 17,219	262,734
Israel	35,845	33,460
Denmark	8,375	17,657
Australia	1,709	6,665
Other regions	12,008	2,399
	<u>\$ 75,156</u>	<u>322,915</u>

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(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):

September 30, 2012	Carrying amount					
	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	21,527	1,058	1,287	1,319	17,863	—
Trade and other payables and accrued liabilities	74,068	43,108	14,774	7,388	5,380	3,418
	<u>\$ 1,540,912</u>	<u>44,166</u>	<u>16,061</u>	<u>8,707</u>	<u>23,243</u>	<u>1,448,735</u>

December 31, 2011	Carrying amount					
	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	—
	<u>\$ 1,517,550</u>	<u>52,461</u>	<u>8,207</u>	<u>1,216</u>	<u>9,259</u>	<u>1,446,407</u>

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

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(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)

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Description	Total at September 30, 2012	Level 1	Level 2	Level 3
Assets:				
Cash	\$ 25,668	25,668	—	—
Money market funds	173	173	—	—
Marketable securities	3,163	3,163	—	—
Restricted cash	29,203	29,203	—	—
Total	\$ 58,207	58,207	—	—
Liabilities:				
Derivative financial instruments	\$ 5,401	—	—	5,401

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.

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(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 September 30, 2012 are as follows (in thousands):

Three-month period ending December 31, 2012	\$	1,892
Years ending December 31:		
2013		6,995
2014		6,025
2015		5,043
2016		2,083
Thereafter		<u>2,886</u>
	\$	<u>24,924</u>

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 \$4,542 and \$3,709 for the nine months ended September 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. During the three months ended September 30, 2012, the Company recorded certain reserves for contractual obligations amounting to \$9.9 million. There were no other material changes to the contractual obligations during the nine months ended September 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 nine months ended September 30, 2012.

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(14) Company Entities

Following is a listing of significant subsidiaries:

	Country of incorporation	Ownership interest	
		September 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 October 3, 2012, the Company's Chief Executive Officer resigned from his position and subsequently resigned from his positions as director of Better Place Inc. (the Company) and of certain of the Company's subsidiaries.

On October 4, 2012, the Company's Board of Directors appointed a new President and Chief Executive Officer, Chief Operating Officer, and Interim Chief Financial Officer.

On October 31, 2012, the Company entered into an Employment Agreement with its new Chief Financial Officer, pursuant to which such individual will serve in the position of Corporate CFO. Based on the terms of this agreement, employment with the Company will commence on January 1, 2013.

On November 14, 2012, Better Place Israel's Chief Executive Officer, who was also serving in his capacity as the Company's newly appointed Chief Operating Officer, notified the Company's Chief Executive Officer of his desire to vacate these positions. On November 19, 2012, the Interim Chief Financial Officer notified the Company's Chief Executive Officer of his desire to vacate this position pending corporate approvals.

The Company has announced that its newly appointed Global Chief Financial Officer will also serve, in the capacity of Better Place Israel's Chief Executive Officer.

The Company's new management is in the process of reevaluating its business plans and operations and has engaged third party advisors to assist in this regard. The finalization of such plans is still in process.

The Company and the European Bank signed on July 12, 2012 an agreement, pursuant to which the bank had made available to the Company a multi-draw term loan facility in an aggregate principal amount of up to \$51.4 million (€40 million) (the "Finance Contract"). The Company's ability to draw down funds under the Finance Contract is conditioned upon several draw conditions. The Company believes that the drawdown conditions for most of the funds have been met. The Company and the European Bank are in further discussions concerning additional conditions required to initiate the drawdowns.

BETTER PLACE, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2012

(Unaudited)

On or about October 15, 2012, the Company offered to existing stockholders the opportunity to purchase in the aggregate at least \$100 million in convertible notes of the Company. Effective as of October 31, 2012 certain stockholders of the Company ("Participating Investors") agreed to purchase an aggregate of \$100 million in convertible notes to be issued by the Company, in installment payments.

The \$100 million convertible note financing was approved by the Company's Board of Directors on October 29, 2012.

The closing of the convertible note financing occurred on November 19, 2012, at which time the Participating Investors purchased \$50 million in convertible notes. The Participating Investors are committed to invest the remaining \$50 million in one or more installments, based on their respective total capital commitments, at the request of the Company to be made no later than 12 months after the initial closing. Each convertible note issued to a Participating Investor that purchases 100% or less of its pro rata portion of the aggregate convertible notes issued at that time, such pro rata amount based on such Participating Investor's respective ownership interest of the Company's total outstanding preferred stock, will bear interest at the rate of 12% per annum from the date of issuance of such note. Each convertible note issued to a Participating Investor with respect to an investment that is in excess of such pro rata portion of the aggregate convertible notes, will bear interest at the rate of 18% per annum from the date of issuance of such note.

The convertible notes may be converted into shares of Series C Preferred Stock, securities issued in a future financing, or shares issued in an initial public offering. In addition, the principal and accrued interest as of any point in time under the convertible notes will automatically convert into securities of the Company upon the earliest to occur of the following: (i) the completion of a new financing round by the Company of at least US\$ 100 million, of which at least US\$ 25 million is invested by investors who are not existing holders of Better Place securities, including convertible notes, in which event the convertible notes may be converted, at each investor's option, into shares of Series C Preferred or into the securities issued in the new financing; (ii) in the event of an initial public offering of shares by the Company that constitutes a Qualified IPO, as defined in the Certificate of Incorporation of the Company, in which event the convertible notes may be converted, at each investor's option, into shares of Series C Preferred or into the class of securities issued in the Qualified IPO; and (iii) at the expiration of 36 months from the date of the initial closing of the convertible note financing, into shares of Series C Preferred.

The Compensation Committee, on October 29, 2012, approved special benefits related to the Company's stock option program to those employees whose employment is terminated due to the Company's restructuring. A charge for this provision will be recorded in the fourth quarter of 2012.

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

Condensed interim financial information
for the respective nine months and three months periods
ended 30 September 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 September 2012, the condensed statements of comprehensive income for the respective nine months and three months periods then ended, the condensed statements of changes in equity and cash flows for the nine 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 September 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

5 November 2012

Condensed statement of comprehensive income

for the respective nine months and three months periods ended 30 September (unaudited)

<i>In thousands of RMB</i>	Note	<u>For the nine months ended</u>		<u>For the three months ended</u>	
		30 September	30 September	30 September	30 September
		2012	2011	2012	2011
Other income		10,762	983	-	983
Research and development expenses	4	(155,170)	(523,269)	(53,087)	(62,858)
Administrative expenses		(219,566)	(114,443)	(88,281)	(45,817)
Other expenses		(1,421)	(1,267)	(277)	(311)
Results from operating activities		(365,395)	(637,996)	(141,645)	(108,003)
Finance income	5(a)	30,527	31,505	9,124	26,752
Finance costs	5(a)	-	(14,634)	(1,345)	(4,760)
Net finance income	5(a)	30,527	16,871	7,779	21,992
Loss before tax		(334,868)	(621,125)	(133,866)	(86,011)
Tax expense	6	-	-	-	-
Loss for the period		(334,868)	(621,125)	(133,866)	(86,011)
Net change in fair value of available-for-sale financial assets		5,158	-	669	-
Net change in fair value of available-for-sale financial assets reclassified to profit or loss	5(a)	(5,158)	-	(1,168)	-
Other comprehensive income for the period, net of tax		-	-	(499)	-
Total comprehensive income for the period		(334,868)	(621,125)	(134,365)	(86,011)

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

Condensed statement of financial position

(unaudited)

<i>In thousands of RMB</i>	Note	30 September 2012	31 December 2011
Assets			
Property, plant and equipment	7	1,035,468	310,382
Intangible assets	8	1,064,986	385,481
Prepayments for purchase of equipment		314,136	38,106
Lease prepayments	9	218,057	249,202
Other receivables	10	24,414	31,020
Pledged deposits	11	-	42,836
Non-current assets		2,657,061	1,057,027
		-----	-----
Available-for-sale financial assets	12	-	440,000
Other receivables	10	152,456	51,676
Prepayments		30,107	8,172
Pledged deposits	11	59,161	2,917
Cash and cash equivalents	13	1,116,157	1,047,186
Current assets		1,357,881	1,549,951
		-----	-----
Total assets		<u>4,014,942</u>	<u>2,606,978</u>
Equity			
Paid-in capital	14	4,231,840	3,481,840
Reserves		74	74
Accumulated losses		<u>(1,648,946)</u>	<u>(1,314,078)</u>
Total equity		2,582,968	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)

<i>In thousands of RMB</i>	Note	30 September 2012	31 December 2011
Liabilities			
Finance lease liabilities	15	996	5,350
Loans and borrowings	16	<u>727,000</u>	<u>-</u>
Non-current liabilities		727,996	5,350
		-----	-----
Loans and borrowings	16	369,348	80,000
Other payables	17	328,871	348,302
Finance lease liabilities	15	<u>5,759</u>	<u>5,490</u>
Current liabilities		703,978	433,792
		-----	-----
Total liabilities		1,431,974	439,142
		-----	-----
Total equity and liabilities		<u>4,014,942</u>	<u>2,606,978</u>

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

 Guo Qian
Chairman and CEO

 Volker Steinwascher
Vice-Chairman

 John Meng
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 nine months ended 30 September (unaudited)

<i>In thousands of RMB</i>	<u>Paid-in capital</u>	<u>Capital reserve</u>	<u>Fair value reserve</u>	<u>Accumulated losses</u>	<u>Total</u>
Balance at 1 January 2011	2,921,840	-	-	(612,845)	2,308,995
Capital injection from investors	560,000	74	-	-	560,074
Loss for the period	-	-	-	(621,125)	(621,125)
Other comprehensive income for the period	-	-	-	-	-
Balance at 30 September 2011	<u>3,481,840</u>	<u>74</u>	<u>-</u>	<u>(1,233,970)</u>	<u>2,247,944</u>
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	-	-	-	(334,868)	(334,868)
Other comprehensive income for the period	-	-	-	-	-
Balance at 30 September 2012	<u>4,231,840</u>	<u>74</u>	<u>-</u>	<u>(1,648,946)</u>	<u>2,582,968</u>

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

Condensed statement of cash flows
for the nine months ended 30 September (unaudited)

<i>In thousands of RMB</i>	<u>Nine months ended 30 September</u>	
	2012	2011
Net cash used in operating activities	(413,032)	(728,061)
Net cash used in investing activities	(1,286,729)	(88,664)
Net cash from financing activities	<u>1,768,732</u>	<u>551,985</u>
Net increase/(decrease) in cash and cash equivalents	68,971	(264,740)
Cash and cash equivalents at 1 January	<u>1,047,186</u>	<u>1,751,907</u>
Cash and cash equivalents at 30 September	<u><u>1,116,157</u></u>	<u><u>1,487,167</u></u>

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 Changshu, Jiangsu Province, PRC. According to notice (Guo)Mingchengbianhewaizi[2011]No.236 dated 1 December 2011, the Company changed its legal name from Chery Quantum Auto Co., Ltd. to Qoros Automotive Co., Ltd. A revised business licence (No. 340000400000672) 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.

<i>In thousands of RMB</i>	<u>For the nine months ended</u>		<u>For the three months ended</u>	
	30 September	30 September	30 September	30 September
	2012	2011	2012	2011
CF11, CF14, CF16 and CF1X	<u>155,170</u>	<u>523,269</u>	<u>53,087</u>	<u>62,858</u>

5 Loss before income tax

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

<i>In thousands of RMB</i>	<u>For the nine months ended</u>		<u>For the three months ended</u>	
	30 September	30 September	30 September	30 September
	2012	2011	2012	2011
(a) Net finance income:				
Interest income from available-for-sale financial assets	5,158	12,573	1,168	3,619
Interest income from banks	17,314	18,262	7,956	8,345
Net foreign exchange gain	<u>8,055</u>	<u>670</u>	<u>-</u>	<u>14,788</u>
Finance income	<u>30,527</u>	<u>31,505</u>	<u>9,124</u>	<u>26,752</u>
	-----	-----	-----	-----
Interest expense (Note 7&8)	-	(14,634)	-	(4,760)
Net foreign exchange loss	<u>-</u>	<u>-</u>	<u>(1,345)</u>	<u>-</u>
Finance costs	<u>-</u>	<u>(14,634)</u>	<u>(1,345)</u>	<u>(4,760)</u>
	-----	-----	-----	-----
Net finance income	<u>30,527</u>	<u>16,871</u>	<u>(7,779)</u>	<u>(21,992)</u>
	=====	=====	=====	=====
(b) Staff costs:				
Contributions to defined contribution retirement plan	(6,042)	(4,227)	(2,569)	(2,441)
Salaries, wages and other benefits	<u>(105,161)</u>	<u>(104,130)</u>	<u>(52,075)</u>	<u>(42,629)</u>
	<u>(111,203)</u>	<u>(108,357)</u>	<u>(54,644)</u>	<u>(45,070)</u>
	=====	=====	=====	=====
(c) Other items:				
Amortisation				
- lease prepayments	(3,969)	(4,184)	(1,103)	(1,394)
- intangible assets	<u>(1,609)</u>	<u>(521)</u>	<u>(772)</u>	<u>(335)</u>
	<u>(5,578)</u>	<u>(4,705)</u>	<u>(1,875)</u>	<u>(1,729)</u>
	=====	=====	=====	=====
Depreciation				
- property, plant and equipment	<u>(11,068)</u>	<u>(8,072)</u>	<u>(3,886)</u>	<u>(3,122)</u>
	=====	=====	=====	=====
Operating lease charges				
- hire of office rentals	(16,349)	(10,836)	(7,060)	(3,535)
- hire of cars	<u>(3,091)</u>	<u>(1,332)</u>	<u>(1,666)</u>	<u>(391)</u>
	<u>(19,440)</u>	<u>(12,168)</u>	<u>(8,726)</u>	<u>(3,926)</u>
	=====	=====	=====	=====

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:

<i>In thousands of RMB</i>	<i>As at 30 September 2012</i>
Deductible temporary differences	1,326,646
Cumulative unutilised tax losses	<u>419,390</u>
Total	<u><u>1,746,036</u></u>

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:

<i>In thousands of RMB</i>	<i>As at 30 September 2012</i>
2013	84,064
2014	51,523
2015	92,479
2016	-
2017	<u>191,324</u>
Total	<u><u>419,390</u></u>

7 Property, plant and equipment

<i>In thousands of RMB</i>	<u>Leasehold improvements</u>	<u>Equipment</u>	<u>Construction in progress</u>	<u>Total</u>
Cost				
Balance at 1 January 2012	8,048	29,827	287,438	325,313
Additions for the period	<u>3,087</u>	<u>16,157</u>	<u>716,910</u>	<u>736,154</u>
Balance at 30 September 2012	11,135	45,984	1,004,348	1,061,467
Depreciation				
Balance at 1 January 2012	(5,150)	(9,781)	-	(14,931)
Depreciation for the period	<u>(2,787)</u>	<u>(8,281)</u>	<u>-</u>	<u>(11,068)</u>
Balance at 30 September 2012	(7,937)	(18,062)	-	(25,999)
Carrying amount				
Balance at 1 January 2012	<u>2,898</u>	<u>20,046</u>	<u>287,438</u>	<u>310,382</u>
Balance at 30 September 2012	<u>3,198</u>	<u>27,922</u>	<u>1,004,348</u>	<u>1,035,468</u>

Leased plant and machinery

The Company leases a data centre under a finance lease agreement. As at 30 September 2012, the net carrying amount of leased plant and equipment was RMB 6,835 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 822,536 thousand (2011: RMB 235,507 thousand).

Included in construction in progress is an amount of RMB 1,092 thousand, that represents borrowing costs capitalised during the period using a capitalisation rate of 3.52%~6.89%.

As at 30 September, all construction in progress were pledged to bank as security for the consortium financing agreement. (Note 16)

8 Intangible assets

<i>In thousands of RMB</i>	Software	Development costs CF11, CF14 and CF1X	Total
Cost			
Balance at 1 January 2012	24,945	361,484	386,429
Additions	<u>6,652</u>	<u>674,462</u>	<u>681,114</u>
Balance at 30 September 2012	31,597	1,035,946	1,067,543
Amortisation			
Balance at 1 January 2012	(948)	-	(948)
Amortisation for the period	<u>(1,609)</u>	<u>-</u>	<u>(1,609)</u>
Balance at 30 September 2012	(2,557)	-	(2,557)
Carrying amount			
Balance at 1 January 2012	<u>23,997</u>	<u>361,484</u>	<u>385,481</u>
Balance at 30 September 2012	<u>29,040</u>	<u>1,035,946</u>	<u>1,064,986</u>

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 24,363 thousand, that represents borrowing costs capitalised during the period using a capitalisation rate of 3.52%~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		<u>(268,729)</u>
Balance at 30 September 2012		220,631
Amortisation		
Balance at 1 January 2012		(19,527)
Amortisation for the period		(3,969)
Written back on disposal		<u>20,922</u>
Balance at 30 September 2012		(2,574)
Carrying amount		
Balance at 1 January 2012		<u>249,202</u>
Balance at 30 September 2012		<u>218,057</u>

As at 30 September 2012, the Company's lease prepayments represented the lease prepayments of the land use right located in Changshu, Jiangsu Province. The land use right was pledged to bank as securities for the consortium financing agreement. (Note 16)

Lease prepayments of land use right located in Wuhu, Anhui Province with a carrying amount of RMB 247,807 thousand were disposed of in 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 for the nine months periods ended 30 September 2012.

10 Other receivables

<i>In thousands of RMB</i>	Note	At 30 September 2012	At 31 December 2011
Value-added tax deductible		119,685	24,677
Other receivables due from third parties		16,056	11,300
Receivables due from employees		39,954	46,358
Receivables due from related parties	22(c)	<u>1,571</u>	<u>757</u>
		177,266	83,092
Less: allowance for doubtful debts		<u>(396)</u>	<u>(396)</u>
		<u>176,870</u>	<u>82,696</u>
Non-current		24,414	31,020
Current		<u>152,456</u>	<u>51,676</u>
		<u>176,870</u>	<u>82,696</u>

11 Pledged deposits

Bank deposits of RMB 59,161 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 as at 31 December 2011 represented the short-term investments (maturity period within one month) which were issued by a licensed trust company in China. All these investments had been disposed of as at 30 September 2012.

13 Cash and cash equivalents

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

14 Paid-in capital

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

15 Finance lease liabilities

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

<i>In thousands of RMB</i>	<u>30 September 2012</u>			<u>31 December 2011</u>		
	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	266	5,759	6,025	535	5,490
Between one and five years	<u>1,003</u>	<u>7</u>	<u>996</u>	<u>5,522</u>	<u>172</u>	<u>5,350</u>
	<u><u>7,028</u></u>	<u><u>273</u></u>	<u><u>6,755</u></u>	<u><u>11,547</u></u>	<u><u>707</u></u>	<u><u>10,840</u></u>

16 Loans and borrowings

<i>In thousands of RMB</i>	At 30 September 2012	At 31 December 2011
Denominated in:		
RMB	1,008,000	80,000
USD	<u>88,348</u>	<u>-</u>
	<u>1,096,348</u>	<u>80,000</u>
Non-current	727,000	-
Current	<u>369,348</u>	<u>80,000</u>
	<u>1,096,348</u>	<u>80,000</u>

Current loans and borrowings represented unsecured bank loans with maturity period within one year.

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 within 3 years until 23 July 2015. 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 interest rate of LIBOR+4.8% per annum. The agreement was secured by the company's land use right in Changshu and construction in progress, and guaranteed by Wuhu Chery and Changshu Port Construction Co.. As at 30 September 2012, the Company had drawn down loans of RMB 727 million with the interest rate of 6.55%.

The loans are repayable within 10 years from 23 July 2012. The first repayment date is set as 36 months after the first draw down date (27 July 2012). On 27 July 2015 and every 6 months after the preceding repayment date, the Company should repay by instalment based on the following schedule:

	<u><i>Repayment of loan principal</i></u> <u><i>as a % of the outstanding</i></u> <u><i>loan balance on 23 July 2015</i></u>
27 July 2015	1.667%
27 January 2016	1.667%
27 July 2016	1.667%
27 January 2017	6.667%
27 July 2017	6.667%
Remaining	81.665%

17 Other payables

<i>In thousands of RMB</i>	At 30 September 2012	At 31 December 2011
Other payables to third parties	<u>328,871</u>	<u>348,302</u>

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. Detailed information regarding the long-term loans borrowed in 2012 was disclosed in Note 16.

19 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

<i>In thousands of RMB</i>	At 30 September 2012	At 31 December 2011
Within 1 year	31,998	17,735
After 1 year but within 5 years	<u>59,090</u>	<u>341</u>
	<u>91,088</u>	<u>18,076</u>

20 Capital commitments

Capital commitments outstanding not provided for in the financial statements:

<i>In thousands of RMB</i>	At 30 September 2012	At 31 December 2011
Contracted for	1,428,444	1,710,817
Authorised but not contracted for*	<u>603,305</u>	<u>582,336</u>
	<u>2,031,749</u>	<u>2,293,153</u>

* 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 September 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

<i>In thousands of RMB</i>	<u>For the nine months ended</u>		<u>For the three months ended</u>	
	30 September	30 September	30 September	30 September
	2012	2011	2012	2011
Salaries, benefit and contribution to the defined contribution plan	<u>8,452</u>	<u>9,619</u>	<u>2,179</u>	<u>3,065</u>

(c) Other related party transactions

The Company entered into the following material related party transactions:

	<u>For the nine months ended</u>		<u>For the three months ended</u>	
	30 September	30 September	30 September	30 September
	2012	2011	2012	2011
Rental expenses paid to Chery Auto’s subsidiary	15	77	-	51
Service fee paid to a joint venture invested by Chery Auto	12,278	6,111	3,549	3,750
Purchase from Chery Auto	3,436	40	-	-
Travel expense paid on behalf of Chery and SICAR	334	-	75	-
Other expense charged to Israel Corporation	750	-	750	-

21 Related parties (continued)

(c) *Other related party transactions (continued)*

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

<i>In thousands of RMB</i>	At 30 September 2012	At 31 December 2011
Amounts due from related parties		
- prepayments to a joint venture invested by Chery Auto	3,436	1,559
- other receivables from Chery Auto's subsidiary	80	5
- other receivables from Israel Corporation Ltd.	<u>1,491</u>	<u>752</u>
	<u><u>5,007</u></u>	<u><u>2,316</u></u>

(d) *Relationship with the related parties under the transactions stated in 22(c) above*

<u>Name of the entities</u>	<u>Relationship with the Company</u>
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