ISRAEL CORPORATION LTD.

September 21, 2014

Rating Update

'ilA+' Rating Affirmed; Israel Corp Rating Not Expected To Be Negatively Impacted Due To Potential Implementation Of Asset Spinoff, As Per Published Outline

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Note that this translation was made for the company's use only and under no circumstances obligates Standard & Poor's Maalot. In the case of any discrepancy with the official Hebrew version published on September 21, 2014, the Hebrew version shall apply.

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OVERVIEW

- Apart from the change in the company’s stake in Zim Integrated Shipping Services Ltd., there has been no change in the composition of Israel Corp’s investment portfolio, and the company continues to maintain a level of leverage commensurate with the current rating.
- Despite the deterioration in operating performance in 2013 and in the first half of 2014, mostly due to a decrease potash prices, major subsidiary Israel Chemicals Ltd (ICL) continues to distribute dividends in accordance with our expectations. In addition, we believe that Israel Corp.’s intentions to sell part of its stake in ICL and to register ICL for trade on the NYSE, both constitute positive steps for Israel Corp’s portfolio’s risk profile and for its financial standing.
- In July 2014, Zim signed a debt restructuring arrangement, and it is not likely to be a financial burden on the company in the near future.
- As to the company’s plan to spin off its privately held assets, we believe that if the spinoff is completed according to the currently published plan, it is unlikely to negatively impact the company’s credit rating.
- We are affirming the 'ilA+' rating for operating holding company, Israel Corporation Ltd.
- The stable outlook reflects our expectation that the company will manage to maintain an LTV ratio of up to 35% in the short term. It also reflects our expectation that the company’s rating will not be negatively impacted due to a possible implementation of the spinoff plan, provided that it is executed in line with the currently published outline.

RATING ACTION

On September 21, 2014, Standard & Poor's Maalot affirmed its 'ilA+' long-term corporate credit rating on operating holding company, Israel Corporation Ltd. The outlook remains stable.

RATIONALE

The affirmation of Israel Corporation’s ratings reflects our assessment that no significant changes have occurred in the company’s business risk or financial risk profiles over the past year, this despite a deterioration in ICL’s operating performance over the last 18 months as a result of a drop in potash prices, and despite our opinion that there is a reduction in the potential financial burden on the company due to Zim’s recently completed debt restructuring agreement.

Despite the recent deterioration in cash flow generation, ICL remains with a robust financial and business risk profile and continues to distribute dividends in accordance with our expectations. Israel Corporation is extremely dependent on ICL, which currently constitutes about 75% of portfolio value and accounts for 100% of received dividends. ICL's business and financial risk profiles are amongst the strongest of all industrial companies rated by S&P Maalot. We believe long term trends in the potash market will remain positive, and that ICL's financial performance is likely to stabilize in the second half of 2014. We think that Israel Corporation's plan to sell 5.7% of ICL's share capital and to register its stocks for trade on the New York Stock Exchange (NYSE) are positive developments for Israel Corp's business and financial risk profiles.

As per Zim's debt restructuring agreement finalized in July 2014, and the reduction in Israel Corporation's holding in Zim from 100% to 32%, we believe these are positive developments that have removed uncertainty regarding future capital injections by Israel Corporation into Zim.

Israel Corporation's LTV ratio is currently 26%, compared to 24% in our last review in October 2013. Current leverage is significantly below the leverage ratio which we have determined to be in line with the current rating (i.e. up to 35%). We believe that the company's gearing is relatively low, and there is sufficient margin for taking on additional debt or for a drop in portfolio value while maintaining the current rating. The company's relatively low leverage provides for good financial flexibility, which is partly offset by the company's holding of a controlling share in ICL, which reduces its willingness to sell shares beyond a certain point. As of September 1, 2014, the company had gross holding level debt of about $2.2 billion, financial guarantees of about $320 million and cash of about $800 million. We estimate the company's portfolio value at about $6.9 billion.

Our assessment of Israel Corporation's business risk profile is based on an evaluation of the credit quality of its investee companies, portfolio diversification in terms of assets and sectors, and liquidity of held shares. Our assessment of the company's financial risk profile is mainly based on holding company financial leverage, as expressed by the ratio between net debt to portfolio value (LTV), and on the holding company's cash coverage ratios as expressed by the ratio of received dividends and management fees to interest and overhead expenses as well as dividends paid. The blending of the company's business and financial risk profiles indicates the company's level of financial flexibility, i.e., its ability to refinance debt on the back of held assets or to redeem debt via rapid divestment from held assets.

This above outlined credit rating methodology is applied to all rated investment holding companies and operating holding companies rated by S&P. In June 2013, Israel Corporation first made public its intent to examine a strategic spinoff of parts of its investment portfolio. According to the proposed plan, Israel Corporation will only retain its holdings in Israel Chemicals (ilAA+/Negative) and in Oil Refineries (ilBBB/Stable), as well as all of the current financial debt and most of its cash. We believe that implementation of the spinoff plan is relatively likely. If the asset split is completed, we will likely change our method of analysis such that our assessment of the company's credit risk will be based on its consolidated reports, whereas its liquidity profile will continue to be analyzed at the holding level. We believe that if the spinoff plan is implemented according to the last published outline, the spinoff in itself will not negatively impact the company's current credit ratings.

Liquidity

According to our criteria, Israel Corporation's liquidity profile is "strong", and relies on significant cash balances and on dividend inflows from ICL. We estimate the ratio of the company's sources to uses to be 7.7x in 2014 and 2.5x in 2015. Coverage ratios are expected to change slightly after the partial divestment of ICL shares and assuming the completion of the asset split in early 2015. However, our assessment of the company's liquidity profile will remain "strong", as defined by our criteria. The company has displayed a proven ability to refinance debt through the banking system and in the capital markets. Its ratio of dividends received to interest and operating expenses is exceptionally high (about 2.5x) compared to other rated holding companies, so it can comfortably meet its ongoing debt service.

About half of the company's total financial debt is made up of bank loans, wherein the company is required to meet three major financial covenants. The company currently maintains significant margin on these covenants. The company also encumbers about 55% of its holding in ICL shares with pledges to financing banks. As we understand, the company meets the covenants on its secured loans with sufficient margin.
In our base-case scenario, we assume the company's sources as of September 1, 2014, to be:

- About $770 million in cash and negotiable financial assets;
- About $400 million in dividend receipts until the end of 2015;
- About $35 million in management fees and other revenues until the end of 2015.

Our assumptions regarding the company's uses as of September 1, 2014, are as follows:

- Principal maturities of about $310 million until the end of 2015;
- Interest payments of about $170 million until the end of 2015;
- General and administrative expenses of about $35 million until the end of 2015;
- Investments and other (mandatory) expenses of about $20 million until the end of 2015.

OUTLOOK

The stable outlook reflects our expectation that Israel Corporation will maintain an LTV ratio of up to 35% in the short term. We believe that implementation of the spinoff plan over the next 6 months is a relatively high-likelihood event. Accordingly, the stable outlook also reflects our expectation that the company's rating will not be negatively impacted due to a possible implementation of the spinoff plan, provided that there are no significant deviations from the last published outline. We note again that if the spinoff is indeed implemented, we expect to change our method of analysis, such that our assessment of Israel Corporation's credit risk will be based on its consolidated reports. However, its liquidity profile will continue to be analyzed at the holding level.

We will consider a negative rating action if we witness a significant deterioration in ICL's cash generating ability, which will hurt its ability to distribute the dividends necessary for Israel Corporation to service its debt and for its other needs. We will also take a negative rating action in the short term if the company's leverage level exceeds 35%. Given significant pending developments, with special emphasis on the asset spinoff plan, we believe it is too early to detail possible triggers for a positive rating action. The definitions of such triggers will only be determined after we witness the actual implementation of the spinoff plan and update our operating forecast and expected credit metrics for Israel Corporation.

RATINGS LIST

	Current Rating	Previous Rating
Israel Corporation Ltd.		
Issuer Rating	ilA+/Stable	ilA+/Stable
Series 3-9 bonds	ilA+	ilA+