Israel Corporation Ltd.

Condensed Consolidated Interim Financial Statements

As at June 30, 2016

(UNAUDITED)

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Israel Corporation Ltd.

Report of the Corporation’s Board of Directors

For the Six Months Ended June 30, 2016

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

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

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

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

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

This Directors’ Report is submitted as part of the interim financial statements for the period ended June 30, 2016. The report was prepared in accordance with the Securities Law (Periodic and Immediate Reports), 1970, and on the assumption that the reader is also in possession of the interim financial statements for the period ended June 30, 2015, and the Periodic Report for 2015.

Additional information

1. Further to that stated in Note 13 to the annual financial statements, on April 6, 2016, the Corporation provided Kenon an additional amount of $50 million. After provision of the additional amount, the actual amount of the loan principal provided to Kenon is $200 million and, thus, Kenon has utilized the full amount of the credit framework provided to it by the Corporation. Pursuant to the loan agreement, Kenon placed a lien in favor of the Corporation on 66% of the issued share capital of I.C. Power – its wholly-owned subsidiary.

   On March 20, 2016, the Corporation gave notice of a change in the lien it was provided for securing the loan granted to Kenon, due to a reorganization of the holdings of Kenon in its wholly-owned subsidiary, I.C. Power. For additional details in connection with the terms of the credit framework, the loans granted, the liens and the change in the lien – see Note 13 to the annual financial statements.

2. On April 24, 2016, Bank Leumi L’Israel Ltd. gave notice that it sold all of its holdings in the Corporation – 451,252 shares, constituting about 5.86% of the Corporation’s issued shares. As of the above-mentioned date, Bank Leumi L’Israel Ltd. ceased to be an interested party in the Corporation.

3. On May 26, 2016, the Corporation completed, as part of the shelf offer prospectus, which was published pursuant to a prospectus of the Corporation on May 5, 2016, issuance of two new series of registered debentures of NIS 1 par value each: Series 10 – an unlinked shekel series with a total par value of NIS 675 million and Series 11 – a dollar-linked series with a total par value of NIS 511 million. The debentures were registered for trading on the Tel-Aviv Stock Exchange. Standard & Poor’s Maalot gave notice of provision for a rating of ilA+ for the above-mentioned debentures (the Corporation is rated ilA+/Negative). For additional details – see Note 5A(7) to the consolidated financial statements.

Additional information (Cont.)

4. On June 26, 2016, the District Court in Tel-Aviv–Jaffa rejected the request for approval to file a derivative claim against the Corporation and others in connection with approval of the Corporation's undertaking in the debt arrangement of ZIM Integrated Shipping Services Ltd (hereinafter – "ZIM") and the conditions for transfer of ZIM's shares in accordance with the Special State Share in ZIM. For additional details – see Note 6A(4) to the annual financial statements.

FINANCIAL POSITION AND RESULTS OF OPERATIONS

– The total sales for the six-month and the three-month periods ended June 30, 2016 amounted to about $2,642 million and about $1,377 million, respectively, compared with about $2,599 million and about $1,196 million, respectively, for the corresponding periods ended June 30, 2015.

– The total net income attributable to the owners of the Corporation for the six-month and the three-month periods ended June 30, 2016 amounted to about $90 million and about $81 million, respectively, compared with net income attributable to the owners of the Corporation about $314 million and about $43 million, respectively, in the corresponding periods last year. In the corresponding periods last year, the income included tax income, in the amount of about $162 million, due to distribution of dividends from an Approved Enterprise as part of the split-up transaction. See Note 31I to the annual financial statements.

– The total assets, as at June 30, 2016, amounted to about $11,285 million, compared with about $9,729 million, as at June 30, 2015, and compared with about $10,787 million, as at December 31, 2015.

– The current assets net of current liabilities, as at June 30, 2016 amounted to about $1,431 million, compared with about $1,183 million as at June 30, 2015, and compared with about $1,336 million, as at December 31, 2015.

– The total non-current assets, as at June 30, 2016, amounted to about $7,514 million, compared with about $6,391 million, as at June 30, 2015, and compared with about $7,060 million, as at December 31, 2015.

– The non-current liabilities, as at June 30, 2016, amounted to about $6,158 million, compared with about $5,018 million, as at June 30, 2015, and compared with about $5,674 million, as at December 31, 2015.

– The total equity as at June 30, 2016 amounted to about $2,787 million and the total equity attributable to the owners of the Corporation amounted to about $1,027 million, compared with equity of $2,556 million and total equity attributable to the owners of the Corporation of $959 million as at June 30, 2015, and compared with total equity of about $2,722 and total equity attributable to the owners of the Corporation of about $961 million as at December 31, 2015.

Set forth below are the results of operations of the Group companies for the period April – June 2016:

– ICL finished the second quarter of 2016 with income of about $120 million, compared with income of about $75 million in the corresponding quarter last year.

– Oil Refineries Ltd. (hereinafter – "ORL"), which applies in its financial statements IFRS 9 (2013), finished the second quarter of 2016 with income of about $87 million, compared with income of about $116 million in the corresponding quarter last year.

  Without the impact of application of IFRS 9 (2013), which is not applied by Israel Corporation, ORL finished the period of the report with income of about $87 million, compared with a loss of about $112 million in the corresponding quarter last year.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

Set forth below are the results of operations of the Group companies for the period January – June 2016:

– ICL finished the period of the report with income of about $186 million, compared with income of about $292 million in the corresponding period last year.

– ORL which applies IFRS 9 (2013) in its financial statements, finished the period of the report with income of about $115 million, compared with income of about $185 million in the corresponding period last year.

Without the impact of application of IFRS 9 (2013), which is not applied by Israel Corporation, ORL finished the period of the report with income of about $124 million, compared with income of about $192 million in the corresponding period last year.

Set forth below is the composition of the Corporation's results attributable to the owners:

	Three months ended June 30		Six months ended June 30	
	2016	**2015**	**2016**	**2015**
	$ Millions			
ICL	**59**	37	**91**	143
ORL	**32**	41	**46**	71
Amortization of excess cost	**(3)**	(3)	**(4)**	(10)
Administrative, general, financing and other expenses of the Corporation's headquarters	**(17)**	(39)	**(51)**	(57)
Gain from re-measurement to fair value of collar options (1)	**13**	1	**6**	7
Tax income (expenses) of the Corporation's headquarters (2)	**(3)**	6	**2**	160
	81	43	**90**	314

(1) Further to that stated in Note 17F(1) to the annual financial statements, the changes stem from re-measurement of the options based on their fair value in connection with the financial transaction in ICL shares (hereinafter – "the Collar Options"), including adjustment of the dividend component. The said changes are included in the "other income" category in the statement of income.

(2) In the periods ended June 30, 2016, derives mainly from distribution of dividends the source of which is an Approved Enterprise, which entitles the Corporation to tax refunds from the Tax Authorities in accordance with law – see Note 31I to the annual financial statements.

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

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

As at June 30, 2016, the total financial liabilities of the Corporation and of the wholly owned and controlled headquarters companies (hereinafter – "the Headquarters Companies") amounted to about $2,271 million. The balance of the fair value of the options in the financial transaction (hereinafter – "the Collar Options") economically reduces the liabilities by about $89 million and the balance of the fair value of the currency and interest SWAP transactions mainly in respect of the debentures, economically increases the liabilities by about $8 million.

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

As at the date of the report, the investments of the Corporation and of the Headquarters Companies in liquid assets amounted to about $839 million. The amounts are invested in short-term deposits and about $55 million thereof are deposited as collateral in favor of loans.

The net debt of the Corporation and of the Headquarters Companies as at the date of the report was about $1,351 million, compared with net debt balances of about $1,441 million and about $1,466 million as at June 30, 2015 and as at December 31, 2015, respectively. As at the date of the report, the net financial liabilities of the headquarters companies standing alone amounted to about $220 million.

For details regarding update of the Corporation's financial covenant – see Note 5A(3) and (4) to the financial statements.

In September 2014, the Corporation entered into a financial transaction with financial entities, in connection with 36.2 million shares of ICL, which were loaned to the financial entities. As part of the transaction, the financial entities provided the Corporation with an initial amount of about $191 million, which is essentially a loan. As at June 30, 2016 and June 30, 2015, the balance of the loan, including accrued interest, which is included as part of the Corporation's net debt, amounted to about $207 million and about $197 million, respectively.

Pursuant to the credit framework agreement, in the amount of about $200 million between the Corporation and Kenon, in 2015 the Corporation provided Kenon a loan, in the amount of about $110 million. On January 4, 2016, Kenon took out an additional loan, in the amount of about $40 million, as part of the credit framework. On April 6, 2016, Kenon took out an additional loan, in the amount of about $50 million, as part of the credit framework. For additional information – see Note 13 to the annual financial statements.

In the period of the report, the Corporation and the Headquarters Companies repaid $192 million, of which full and final payment of the debentures (Series 6) (net of hedging transactions), in the amount of about $93 million, and payment of current maturities of long-term loans, in the amount of about $63 million.

On May 26, 2016, the Corporation completed, as part of a shelf offer report, issuance of two new series of debentures. The proceeds from the issuance, net of the issuance expenses, amounted to about $305 million. For additional details – see Note 5A(7) to the financial statements.

In the period of the report, the Corporation and the Headquarters Companies raised a long-term loan, in the amount of about $50 million. In addition, from time to time, the Corporation and the Headquarters Companies extend the repayment dates of long-term loans. For additional details – see Note 5A to the interim financial statements.

Further to that stated in Note 5E the financial statements as at March 31, 2015 and Note 5 and 31I to the annual financial statements for 2015, during the quarter the Corporation received tax refunds due to payment of dividends from an Approved Enterprise as part of the split-up transaction.

As at June 30, 2016, the average duration of the balance of the loans and debentures of the Corporation and the Headquarters Companies is about 3 years.

On September 21, 2014, Standard & Poor's Maalot, announced that the rating ilA+/stable remains unchanged.
On November 23, 2015, Standard &Poor's Maalot, announced that the rating ilA+/stable remains unchanged.
On January 26, 2016, Standard & Poor's Maalot, announced confirmation of the rating ilA+/stable and a change of the rating outlook to negative due to an increase in the LTV ratio and a decrease in the margin from the financial covenant with some of the lending parties.
On May 25, 2016, Standard & Poor's Maalot, announced provision of a rating of ilA+ for a possible issuance of a new series of debentures in an amount of up to NIS 1.4 billion par value.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES:

ISRAEL CHEMICALS LTD.

	4–6/2016		4–6/2015		1–6/2016		1–6/2015		2015	
	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales
Sales	**1,377**	**–**	1,196	–	**2,642**	**–**	2,599	–	5,405	–
Gross profit	**417**	**30**	336	28	**783**	**30**	782	30	1,803	33
Operating income	**149**	**11**	107	9	**256**	**10**	422	16	765	14
Adjusted operating income*	**163**	**12**	244	–	**278**	**11**	519	–	994	–
Net income attributable to ICL's shareholders	**120**	**9**	75	6	**186**	**7**	292	11	509	9
Adjusted net income attributable to ICL's shareholders*	**132**	**10**	171	–	**217**	**8**	364	–	699	–
Adjusted EBITDA (1)	**278**	**20**	337	–	**501**	**19**	691	–	1,361	–
Cash flows from operating activities	**238**	**–**	325	–	**460**	**–**	391	–	573	–

(1) Calculation of the adjusted EBITDA was made as follows:

	4–6/2016	4–6/2015	1–6/2016	1–6/2015	2015
	$ millions				
Net income attributable to ICL's shareholders	**120**	75	**186**	292	509
Depreciation and amortization	**99**	87	**198**	167	353
Financing expenses, net	**40**	14	**68**	30	108
Taxes on income	**5**	24	**27**	105	162
Adjustments*	**14**	137	**22**	97	229
Total adjusted EBITDA	**278**	337	**501**	691	1,361

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

ICL discloses in its reports financial measures entitled Adjusted EBITDA, Adjusted operating income and Adjusted net income attributable to ICL's shareholders. ICL uses Adjusted EBITDA, Adjusted operating income and Adjusted net income attributable to ICL's shareholders to facilitate operating performance comparisons from period to period. Adjusted EBITDA is defined as the net income to ICL's shareholders after eliminating depreciation and amortization and financing expenses, net and taxes on income and after eliminating certain items as presented in the table "Reconciliation of the reported operating income and net income" below which were adjusted for the operating income and net income attributable to ICL's shareholders.

ICL believes that Adjusted EBITDA facilitates company-to-company operating performance comparisons by backing out potential differences caused by variations such as capital structures (affecting financing expenses, net), taxation (affecting taxes on income) and the age and book depreciation of facilities, equipment and intangible assets (affecting relative depreciation and amortization), which may vary for different companies for reasons unrelated to operating performance. Adjusted EBITDA is a non-IFRS measure for reporting ICL's total company performance. ICL's management believes, however, that disclosure of Adjusted EBITDA provides useful information to investors, financial analysts and the public in their evaluation of our operating performance. Adjusted EBITDA should not be considered as the sole measure of ICL's performance and should not be considered in isolation from, or as a substitute for, operating income or other statement of operations or cash flow data prepared in accordance with IFRS as a measure of ICL's profitability or liquidity. Adjusted EBITDA does not take into account ICL's debt service requirements and other commitments, including capital expenditures, and, accordingly, is not necessarily indicative of amounts that may be available for discretionary uses. In addition, Adjusted EBITDA, as presented in this report, may not be comparable to similarly titled measures reported by other companies due to differences in the way that these measures are calculated.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Adjustments to the operating income and the reported net income

	4–6/2016	4–6/2015	1–6/2016	1–6/2015	2015
			$ millions		
Operating income	**149**	107	**256**	422	765
Impact of employee strike (1)	–	149	–	248	248
Capital loss (gain) from divestitures of non-core businesses and transaction expenses in connection with acquisition and divestiture of businesses	–	(14)	**1**	(223)	(208)
Impairment of assets	–	–	–	34	90
Provision for early retirement and dismissal of employees	–	6	**6**	42	48
Income from consolidation of previous equity equity method investee	–	(7)	–	(7)	(7)
Provision in respect of prior period resulting from an arbitration decision	–	–	–	–	10
Retroactive electricity charges	–	–	–	–	20
Provision for legal claims	**14**	3	**15**	3	8
Provision for historical waste removal	–	–	–	–	20
Total adjustments to operating income	**14**	137	**22**	97	229
Total adjusted EBITDA	**163**	244	**278**	519	994
Total tax impact on the above adjustments and and deferred tax adjustments (2)	**2**	41	**(9)**	25	39
Total net income attributable to the shareholders of ICL	**120**	75	**186**	292	509
Total adjusted net income attributable to the shareholders of ICL	**132**	171	**217**	364	699

(1) The quantities sold that were impacted by the strike in 2015 have not yet been recovered due to the weak market conditions in the first half of 2016.

(2) Non-recurring tax adjustments in the magnesium business in 2015 and at ICL Belgium in 2016. See Note 6B(6) to the consolidated financial statements.

ICL calculates the adjusted operating income by adjusting the operating income as detailed in the above table. ICL calculates the adjusted net income by adjusting the net income as detailed in the above table, excluding the total tax impact of such adjustments. The adjusted operating income or the adjusted net income should not be viewed as a substitute for operating income or net income determined in accordance with IFRS. In addition, it is possible that ICL's definitions of adjusted operating income and adjusted net income may differ from those used by other companies.

Nonetheless, ICL believes that adjusted operating income and adjusted net income provide useful information to both ICL's management and the investors. ICL's management uses these non-IFRS measures to evaluate its business strategies and management's performance. ICL believes that these non-IFRS measures provide useful information to investors because they provide transparency of key measures used to evaluate ICL's performance.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Results of operations for the period April – June 2016

Sales:

ICL's sales in the second quarter of 2016 amounted to $1,377 million, compared with $1,196 million in the corresponding quarter last year. The increase stems mainly from the strike at ICL Dead Sea and ICL Neot Hovav in the corresponding quarter last year, in the amount of approximately $253 million, consolidation of the joint venture in China, which led to an increase in revenues in the amount of $130 million, and the impact of the change in the currency exchange rates, in the amount of $3 million. This increase was partly offset by a decrease in the selling prices, in the amount of $119 million, mainly of potash, a decline in the quantities sold, in the amount of $46 million, mainly of potash, and sales of non-core businesses last year, in the amount of $40 million.

Set forth below is a breakdown of the sales based on location of the customers:

	4–6/2016		4–6/2015	
	$ millions	%	$ millions	%
Europe	**480**	**35**	479	40
Asia	**345**	**25**	160	14
North America	**282**	**20**	289	24
South America	**152**	**11**	183	15
Rest of the world	**118**	**9**	85	7
Total	**1,377**	**100**	1,196	100

The breakdown of sales in the second quarter of 2016 indicates an increase in sales in Asia, stemming mainly from an increase of the quantities of potash sold compared with the corresponding quarter last year, which was impacted by the strike at ICL Dead Sea, consolidation of the joint venture in China, an increase in the quantities sold and selling prices of flame retardants and elemental bromine, and an increase in the sales of phosphate salts and acids. The increase in the sales in Europe stemmed mainly from an increase in the quantities sold of acids, bromine-based products and potash, as well as due to the strike in the corresponding quarter last year which impacted the sales of the specialty minerals products at ICL Advanced Additives. This increase was partly offset by the sale of non-core businesses and a decline in the quantities and selling prices of phosphates fertilizers sold. The decrease in sales in South America stems mainly from a drop in the quantities of phosphate fertilizers sold, a decrease in the selling prices of potash, phosphate fertilizers and green acid, and a decrease in the sales of ICL Advanced Additives due to the economic slowdown in Brazil. The decrease in sales in North America stemmed mainly from the sale of non-core businesses, which was offset by an increase in the sales of fire safety products, P2S5, and an increase in the quantities sold of clear brine solutions, TBBA flame retardants and potash.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Results of operations for the period April – June 2016 (Cont.)

Cost of sales:

The cost of sales in the second quarter of 2016 amounted to $960 million compared with $860 million in the corresponding quarter last year. This increase stems mainly from consolidation of the joint venture in China, in the amount of $130 million, the impact of the strike at ICL Dead Sea and ICL Neot Hovav in the corresponding quarter last year, in the amount of about $66 million, a provision as a result of extension of the validity of the employment agreement at ICL Dead Sea, in the amount of $14 million (out of a total of $17 million recognized during the quarter), an increase the depreciation expenses, in the amount of $4 million, stemming from acceleration of the depreciation in ICL UK due to an update of the potash reserves made last year, and from an increase in other operating expenses, in the amount of $7 million. This increase was partly offset by a decline in the cost of sales as a result of a decrease in the quantities sold as stated above, in the amount of $40 million, a decrease in costs due to the sale of non-core businesses last year, in the amount of $31 million, a decrease in raw-material and energy prices, in the amount of $31 million (mainly a decline in the prices of sulfur and raw materials for production of bromine-based and phosphorous-based products, as well as a drop in energy prices, mainly in Israel, which was partially offset by the increase in energy expenses in ICL Dead Sea and ICL Rotem, due to the system-wide electricity costs, in the amount of $4 million), a decline in salary costs, in the amount of $14 million, stemming from implementation of the efficiency plans, a decline in royalties, in the amount of $3 million, as a result of the decline in the quantities sold and selling prices, and the impact of the change in the currency exchange rates, in the amount of $2 million.

Selling and marketing expenses:

Selling and marketing expenses in the second quarter of 2016 amounted to $179 million, compared with $136 million in the corresponding quarter last year. The increase stems mainly from consolidation of the joint venture in China and the impact of the strike at ICL Dead Sea and ICL Neot Hovav that took place in the corresponding quarter last year, which impacted the quantities sold. The increase was partly offset as a result of a decrease in the shipping costs.

Administrative and general expenses:

General and administrative expenses in the second quarter of 2016 amounted to $81 million, compared with $78 million in the corresponding quarter last year. The increase stems mainly from consolidation of the joint venture in China in the amount of $5 million, which was partially offset by cost cutting measures. The expense in the corresponding quarter last year was impacted by the strike at ICL Dead Sea and ICL Neot Hovav.

Research and development expenses:

Research and development expenses in the second quarter of 2016 amounted to $19 million, compared with $17 million in the corresponding quarter last year.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Results of operations for the period April – June 2016 (Cont.)

Other income and expenses, net:

Other income, net, in the second quarter of 2016, amounted to $11 million. This income includes, mainly income from insurance in respect of the fire that occurred in the fertilizer production facility in Israel in the corresponding quarter last year, in the amount of $25 million. This income was partly offset by a provision for legal claims, in the amount of $14 million. In the corresponding quarter last year, the other income, net, included mainly income from the sale of non-core business activities, in the amount of $14 million, and income from a first-time consolidation, in the amount of $7 million, due to acquisition of the entire holdings in Allana Potash in June 2015, offset by an impairment loss recognized with reference to the property, plant and equipment that were damaged in the fire, as noted above, in the amount of $10 million, a provision for early retirement in ICL Neot Hovav as a result of the efficiency plan, in the amount of $6 million and a provision for a legal claim, in the amount of $3 million.

Financing expenses, net:

The net financing expenses in the second quarter of 2016 amounted to $40 million, compared with $14 million in the corresponding quarter last year, an increase of $26 million. The increase stems mainly from an increase in the interest expenses due to an increase in the total debt, in the amount of $7 million, and an increase in the interest expenses in respect of provisions for employee benefits, in the amount of $8 million. In addition, there was an increase, in the amount of $15 million, in the expenses in respect of change in the fair value of foreign currency, energy and marine transportation hedging transactions and exchange rate differences in respect of provisions for employee benefits. On the other hand, there was an increase, in the amount of $4 million, relating to capitalization of interest costs.

Taxes on income:

Tax expenses in the second quarter of 2016 amounted to $5 million, compared with tax expenses of $24 million in the corresponding quarter last year. The decrease in the tax expenses in the second quarter of 2016 stems mainly from tax income recognized as a result of the deferred tax update in some of our subsidiaries which was partly offset by tax expenses as a result of the Law for Taxation of Natural Resources in Israel and from changes in the dollar/shekel exchange rate which caused an increase in the tax rate of the Israeli subsidiaries.

Results of operations for the period January – June 2016

Sales:

ICL's sales in the six months ended on June 30, 2016 amounted to $2,642 million, compared with $2,599 million in the corresponding period last year. This increase stems mainly from the impact of the strike at ICL Dead Sea and ICL Neot Hovav in the corresponding period last year, in the amount of approximately $423 million and from the consolidation of the joint venture in China, which led to an increase in revenues in the amount of $195 million. This increase was partly offset by a decrease in the quantities sold, in the amount of $274 million, mainly of potash, a drop in the selling prices, in the amount of $196 million, mainly of potash, sales of non-core businesses that were divested last year, in the amount of $89 million, and the impact of the change in the currency exchange rates (mainly devaluation of the exchange rate of the pound against the dollar), in the amount of $16 million.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Results of operations for the period January – June 2016 (Cont.)

The following table sets forth Sales by geographical regions based on the location of the customer:

	1–6/2016		**1–6/2015**		**1–12/2015**	
	$ millions	**%**	**$ millions**	**%**	**$ millions**	**%**
Europe	**1,039**	**39**	1,103	42	2,012	37
Asia	**584**	**22**	381	15	1,118	21
North America	**549**	**21**	612	23	1,253	23
South America	**244**	**9**	301	12	585	11
Rest of the world	**226**	**9**	202	8	437	8
Total	**2,642**	**100**	2,599	100	5,405	100

The breakdown of sales in the six months ended on June 30, 2016 indicates an increase in sales in Asia, deriving mainly due to consolidation of the joint venture in China, an increase in the quantities sold of flame retardants and elemental bromine, and an increase in the sales of phosphate salts and acids. This increase was partly offset by a decrease in the quantities sold and selling prices of potash and sale of non-core businesses. The decrease in the sales in Europe stems mainly from sale of non-core activities, a drop in the selling prices of potash and phosphate fertilizers, and a decrease in the quantities of phosphate fertilizers sold. This decrease was partly offset by an increase in the selling prices and quantities sold of bromine-based products. The decline in sales in North America stems mainly from sale of non-core businesses, a decline in the selling prices of potash, and a drop in the sales of clear brine solutions to the oil drilling industry. This decrease was partly offset by an increase in the sales of fire safety products and P2S5. The decrease in the sales in South America derives mainly from a decline in the selling prices of phosphate fertilizers and potash, a decrease in the quantities sold of phosphate fertilizers and a decline in sales of ICL Advanced Additives as a result of the economic slowdown in Brazil.

Cost of sales:

The cost of sales in the six months ended on June 30, 2016 amounted to $1,859 million compared with $1,817 million in the corresponding period last year. This increase stems mainly from consolidation of the joint venture in China, in the amount of $195 million, the impact of the strike at ICL Dead Sea and ICL Neot Hovav in the corresponding period last year, in the amount of about $111 million, an increase in depreciation expenses, in the amount of $12 million, mainly as a result of acceleration of depreciation in ICL UK following the update of the potash reserves made last year and an increase in amortization of additional stripping costs in ICL Rotem as a result of increased production in the first quarter of 2016, a provision as a result of extension of the validity of the employment agreement at ICL Dead Sea, in the amount of $14 million (out of a total of $17 million recognized during the period), and an increase in other operating expenses, in the amount of $16 million. This increase was partly offset by a decline in the cost of sales as a result of a decrease in the quantities sold as stated above, in the amount of $136 million, a decrease in costs due to the non-core divestitures last year, in the amount of $62 million, a decrease in raw-material and energy prices, in the amount of $59 million (mainly a decline in the prices of sulfur, and raw materials for production of bromine-based and phosphorous-based products, as well as a drop in energy prices, mainly in Israel, which was partially offset by the increase in energy expenses in ICL Dead Sea and ICL Rotem, due to the system-wide electricity costs, in the amount of $8 million), a decline in the salary costs, in the amount of $25 million, due to implementation of the efficiency plans, the impact of the change in the currency exchange rates, in the amount of $13 million (mainly devaluation of the exchange rate of the pound against the dollar), and a decline in royalties, in the amount of $11 million, as a result of the decline in the quantities sold and selling prices.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Results of operations for the period January – June 2016 (Cont.)

Cost of sales: (Cont.)

Energy costs constituted approximately 7% of ICL's total operating costs in the six months ended on June 30, 2016. Energy costs in the period of the report increased by approximately 16% compared with the corresponding period last year, despite the decline in the gas prices and electricity tariffs in Israel, mainly due to the lower quantities produced in Israel in the corresponding period last year as a result of the strike at ICL Dead Sea and ICL Neot Hovav, consolidation of the joint venture in China and payment regarding administrative services of the electricity system.

Selling and marketing expenses:

Selling and marketing expenses in the six months ended on June 30, 2016 amounted to $334 million, compared with $306 million in the corresponding period last year. The increase stems mainly from consolidation of the joint venture in China and the impact of the strike in ICL Dead Sea and ICL Neot Hovav, which took place in the corresponding period last year. This increase was partly offset by a decrease in the shipping costs.

Marine transportation expenses represent approximately 5% of ICL’s total operating costs in the six months ended on June 30, 2016 – a decrease of approximately 7% compared with the corresponding period last year. This decrease is attributable, mainly, to the decline in the shipping prices, due to the drop in the oil and fuel prices that started in the second half of 2014. The average Baltic Dry Index for the first half of 2016 was 486 points, a decrease of 22% compared with its value in the corresponding period last year.

Administrative and general expenses:

General and administrative expenses in the six months ended on June 30, 2016 amounted to $161 million, compared with $154 million in the corresponding period last year. The increase stems mainly from consolidation of the joint venture in China, in the amount of $11 million, which was partially offset by cost cutting measures. The expense in the corresponding period last year was impacted by the strike at ICL Dead Sea and ICL Neot Hovav.

Research and development expenses:

Research and development expenses in the six months ended on June 30, 2016 amounted to $36 million, about the same as in the corresponding period last year.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Results of operations for the period January – June 2016 (Cont.)

Other income and expenses, net:

Other income, net, in the six months ended on June 30, 2016, amounted to $4 million. This income includes mainly insurance income in connection with the fire that took place in the fertilizer production facility in Israel in the corresponding period last year, in the amount of $25 million. This income was partly offset by a provision for legal claims, in the amount of $15 million, a provision for early retirement at ICL Neot Hovav in the amount of $6 million, resulting from the implementation of an efficiency plan and a loss from sale of a subsidiary in the United States, in the amount of $1 million. In the corresponding period last year, other income, net, included mainly income from the sale of non-core business activities, in the amount of $223 million, and income from the first-time consolidation, in the amount of $7 million, resulting from acquisition of the entire holdings in Allana Potash in June 2015, offset by a provision for early retirement in ICL Neot Hovav, in the amount of $42 million, as a result of implementation of the efficiency plan, an impairment in the value of assets in Germany, in the amount of $34 million, an impairment loss recognized with reference to the property, plant and equipment that were damaged in the fire, as mentioned above, in the amount of $10 million, and a provision for a legal claim, in the amount of $3 million.

Financing expenses, net:

The net financing expenses in the six months ended on June 30, 2016 amounted to $68 million, compared with $30 million in the corresponding period last year, an increase of $38 million. The increase in the financing expenses stems mainly from an increase in the interest expenses, due to an increase in the total debt, in the amount of $15 million, an increase, in the amount of $22 million, in the expenses in respect of the change in the fair value of foreign currency, energy and marine transportation hedging transactions and expenses in respect of exchange rate differences relating to employee benefits, and an increase in the interest expenses relating to provisions for employee benefits, in the amount of $3 million. On the other hand, there was an increase of $2 million relating to capitalization of interest costs.

Taxes on income:

Tax expenses in the six months ended on June 30, 2016 amounted to $27 million, compared with tax expenses of $105 million in the corresponding period last year. The tax rate on pre-tax income was about 14%, compared with approximately 27% in the corresponding period last year. The tax rate in the current period was lower than in the corresponding period last year mainly due to reduction of the Companies Tax rate in Israel from 26.5% to 25%, and tax income recognized as a result of the deferred taxes' update in certain subsidiaries. This decline was partly offset by tax expenses relating to prior periods following the Belgium tax court's decision and tax expenses deriving from the Law for Taxation of Natural Resources in Israel.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Business environment – highlights

The second quarter of 2016 was characterized by a challenging environment for the global commodities market and the slow recovery of the Gross Domestic Product (GDP) of developed countries.

The recovery in the prices of crop commodities during most of the quarter was short lived and the prices of most agricultural crops turned down towards the end of the quarter, mainly as a result of the U.S. Department of Agriculture's (USDA) planting report predicting a substantial increase in corn and soybean planted areas.

Based on data of the USDA published on July 10, 2016, the stock to use for grains ratio is expected to be approximately 24.0% for the 2016/2017 agricultural year, a minor decrease from a level of 24.37% in the 2015/2016 agricultural year.

Main events

– The potash market operated in a “suspended mode” during the second quarter of 2016 owing to non-renewal of contracts with Chinese and Indian importers.

– A contract between Belarusian Potash company (BPC) and Indian customers was signed only at the end of June 2016, at a price of $227 per ton. Based on the said contract, stronger monsoon forecasts and a reduced Maximum Retail Price (MRP), it is projected that India’s potash consumption will increase significantly compared with the first half of the year[1].

– A contract between BPC and Chinese importers was signed in mid-July 2016, at a price of $219 per ton.

– In Brazil, demand is continuing to recover, mainly due to an increase in soybean prices.

– During the second quarter of 2016, prices of phosphate fertilizers continued their downward trend, which started at the end of last year.

– The low DAP/MAP prices offered by major producers reversed the Chinese export rally seen during 2014/15. However, a small recovery of the demand in India and Brazil is providing hope for the near term future.

[1] The estimates regarding an increase in the consumption of potash in this paragraph constitute “forward-looking” information, and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, fluctuations in the world markets for potash and its related products, particularly in India, including, among other things, changes in the level of supply and demand, extreme changes in the weather conditions, in the prices of the products, commodities and grains, the prices of the inputs, and the shipping and energy costs, and they may be impacted by regulation and actions taken by governments, legislation manufacturers and consumers. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Main events (Cont.)

– Elemental bromine prices in China continued to increase during April and May 2016. During June 2016, the prices decreased as a result of the seasonal increase in the Chinese production. During July 2016, prices increased and are now approximately 30% higher than their level in Q3 2014 when price increases were initially announced. ICL is maintaining selling prices. In addition, elemental bromine prices are increasing globally, as well as bromine derivatives prices, depending on their bromine content. Price increases are expected to further contribute to the results in the second half of 2016 compared to the second half of 2015[2].

– Significant growth in the sales of FR122P (the new polymeric flame retardant used in insulation materials in the construction sector) as the European and Japanese markets have phased out HBCD. In addition, there is a growing interest for this product in Asia Pacific and North America and prices are increasing steadily. Long-term agreements were signed with several strategic customers and other supply agreements are presently being negotiated.

– Despite lower oil and gas prices, sales of clear brine fluids increased in the second quarter of 2016 compared to Q2 2015. The increase in sales is mainly due to sales in Asia and South America.

– Strong FR-245 sales due to high demand in the television and audio markets.

– Consistent with ICL’s strategy to focus on our core markets of Agriculture, Food and Engineered Materials, the sale of Clearon (ICL’s chlorine-based biocides business) was finalized.

– ICL Specialty Fertilizers was able to maintain the previous year’s results, despite lower sales prices due to correlated raw-material prices and lower demand in Asia Pacific stemming from lower crop prices. The commodity headwinds and the decline in prices were offset by geographical expansion as well as a positive contribution from consolidation of the joint venture in China, all of which contributed to an increase in the quantities sold.

– Acquisition of the YPH joint venture in China contributed approximately 4% to the revenues of the Advanced Additives unit compared to Q2 2015.

– The volume of sales of dairy proteins improved significantly due to utilization of increased capacities.

– Sales to emerging markets of the Food Specialties Business Unit are showing steady growth compared to the second quarter and the first six months of 2015.

– Sales of new products specially tailored to customer needs of the Food Specialties Business Unit, grew significantly.

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[2] The estimates regarding the continued contribution to profit as a result of the price increases in this paragraph constitute “forward-looking” information, and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, fluctuations in the world markets, particularly in the target markets for the bromine products, including, among other things, changes in the level of supply and demand, extreme changes in the weather conditions, in the prices of the products, commodities and grains, the prices of the inputs, and the shipping and energy costs, and they may be impacted by regulation and actions taken by governments, legislation manufacturers and consumers. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Business environment

The potash market operated in a “suspended mode” during the second quarter of 2016 owing to non-renewal of contracts in China and India. Signing of the contract with the Chinese importers was delayed until the middle of July 2016. China took advantage of the large inventories accumulated at its ports, as a result of massive, record-high potash imports (9.4 million tons) in 2015. According to customs data, China imported about 3.38 million tons of potash during the first six months of 2016 – 11% less than in the corresponding period last year. A significant part of these volumes is attributable to cross-border imports from Russia and delivery in 2016 of the balance of the quantities under the 2015 contracts. Subsequent to the date of the report, on July 14, 2016, BPC and a consortium of Chinese buyers signed the MOP contract for 2016 at a price of $219 per ton CFR. On July 26, 2016, ICL announced that it has signed contracts to supply 700 thousand tons of potash to its customers in China at a price which is in-line with the recent contract prices for delivery during 2016. The contracts also include options for additional quantities.

Potash imports into India during the first half of 2016 amounted to approximately 875 thousand tons, a decrease of approximately 33% compared to the corresponding period last year. The slowdown stems from the high inventory levels at the beginning of the year, as a result of low demand in 2015, and the delay in signing of contracts for the 2016/17 fiscal year.

At the end of June 2016, BPC signed a contract to supply 700 thousand tons to India Potash Limited (IPL) for the 12-month period from July 1, 2016 through June 30, 2017, at a price of $227 per ton (CFR) with 180 days' credit – a drop of $105 per ton compared with last year’s contract. This was the first time since 2009 that India signed before China.

During July 2016, ICL signed a contract with a customer in India for the 12-month period from July 1, 2016 through June 30, 2017. ICL is continuing to negotiate with other customers in India. Based on the signed contracts, higher monsoon forecasts and a reduced MRP, it is projected that India’s potash consumption in the second half of 2016 will increase significantly over the first half of the year[3].

Demand recovery is continuing in Brazil. According to ANDA (Brazilian National Fertilizer Association), potash imports into Brazil during the first six months of 2016 amounted to approximately 3.9 million tons – an increase of approximately 5.3% compared to the corresponding period last year. The increase is attributable mainly to higher soybean prices.

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[3] The estimates regarding an increase in the consumption of potash in this paragraph constitute “forward-looking” information, and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, fluctuations in the world markets for potash and its related products, particularly in India, including, among other things, changes in the level of supply and demand, extreme changes in the weather conditions, in the prices of the products, commodities and grains, the prices of the inputs, and the shipping and energy costs, and they may be impacted by regulation and actions taken by governments, legislation manufacturers and consumers. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Business environment (Cont.)

According to a report issued by the International Fertilizers Association (IFA) in June 2016, moderate potash demand growth is projected over the five-year period 2015 through 2020[4]. Global demand for potassium for all uses should reach 43 million tons of K_2O in 2020 – an increase at the annual rate of 2.1% compared with 2015.

The capacity/demand balance is expected to shift towards a growing surplus in the long run. Between 2015 and 2020, global potash capacity is expected to grow by 17% while demand is projected to rise by 11%[5].

Given the current market conditions, ICL has decided to accelerate the transition from extracting and producing potash to producing Polysulphate® at its ICL UK mine. These steps are expected to reduce potash production year on year thus freeing-up production capacity to the benefit of Polysulphate®. ICL is currently reviewing and evaluating the economic and operational implications these changes including reduction of workforce numbers in ICL UK by about 140 workers up to the end of the year.

Metal magnesium – global demand for magnesium continues to be impacted by the slowdown in the rate of growth in China, Brazil and Europe as well as excess production capacity in China.

In the United States, the overall demand is being hampered by a slowdown in some key mature sectors of magnesium users. The primary aluminum industry continues to suffer from low aluminum prices, which has forced several US customers to announce shutdowns.

Chinese pure magnesium is trading in the range of $2,100-$2,200 per ton (FOB Chinese port). The re-entry of Russian pure magnesium in the US market is creating additional price pressure.

Chinese price indicators have fallen by approximately $100 per ton after having risen by approximately $200 per ton in April 2016.

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

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

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Business environment (Cont.)

The main issue affecting the phosphate market in the second quarter of 2016 was the lack of an agreed phosphoric acid price between Indian buyers and their main supplier, OCP. The decrease in DAP prices eroded the profit margins of non-integrated producers to the point where purchasing phosphoric acid at the price OCP was expecting is not feasible. Subsequent to the date of the report, on July 12, 2016, it was reported that OCP has closed phosphoric acid contracts with its Indian partners for shipment during Q2-Q4 2016 at a reported price of $605 per ton.

The low DAP/MAP prices offered by major producers such as OCP, Ma'aden and Russian PhosAgro, have reversed the Chinese export rally seen in 2014 and 2015. DAP exports from China increased by 52% and 42% in 2014 and 2015, respectively. Low prices have eroded the margins of the Chinese producers, and exports of DAP for the first six months of 2016 were 31% lower than in the same period last year. As a result, Chinese phosphate producers are believed to be running at an average utilization rate of 50-60%.

High inventories in India resulted in a slow start in the second quarter of 2016. However, expectations for favorable monsoon rains and a reduced MRP of DAP acted to boost demand and India is placing large orders.

Brazil is another market where producers sell their production. After a slow start at the beginning of the year, demand recovered in the second quarter of 2016 and the combined imports of MAP, DAP, TSP and SSP during January through May increased by 6.5% over the corresponding period last year.

In the second quarter of 2016, Europe and the US were virtually in an off-season mode. In the US, an increase in planted areas of corn and soybeans is presumed to have depleted inventories through the supply chain, and producers and retailers are anticipating healthy summer-fill volumes[6].

Prices of phosphate fertilizers have continued their downward trend that started at the end of last year. On average, DAP/MAP prices, FOB Morocco, were down by 29% in the second quarter of 2016 compared to the same period in 2015. TSP CFR Brazil prices were down by 24% and SSP CPT Brazil inland prices were down by 32% compared to the corresponding quarter. The decline is attributable to a weakening of the global demand as well as to increased supply capabilities of global producers.

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[6] The estimates regarding an improvement in the demand for phosphates in this paragraph constitute "forward-looking" information, and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, fluctuations in the world markets, particularly in the target markets for ICL's products, including, among other things, changes in the level of supply and demand, extreme changes in the weather conditions, in the prices of the products, commodities and grains, the prices of the inputs, and the shipping and energy costs, and they may be impacted by regulation and actions taken by governments, legislation manufacturers and consumers. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Business environment (Cont.)

Weaker domestic phosphate demand in China and lower prices also affected the results of the JV in China (YPH), which recorded negative operating income in the second quarter of 2016. ICL has accelerated its efficiency plan for the JV in China including through reductions in labor and G&A expenses. The gradual transformation into specialty products will also support our ability to improve the business performance in light of the weakness in the commodity phosphate market in China[7].

Second quarter demand for flame retardants in the market for printed circuit boards and in the automotive market was stable compared to the second quarter of 2015. Demand for bromine in the Butyl rubber industry was also stable. Demand for Merquel increased due to the continuing implementation of the Mercury Emission Control Regulations in the U.S.

Sales of phosphorous-based flame retardants were unfavorably impacted by increased competition from Chinese manufacturers, which resulted in lower volumes and price pressure.

Specialty Fertilizers markets were negatively impacted by signs of maturity and increased plant protection regulation in Europe, partially offset by the recovery in the housing markets in the US and Europe, which contributed to demand for ornamental horticulture, and by increased demand for enhanced efficiency fertilizers in the US.

The performance of ICL Advanced Additives was favorably impacted by several factors: increased demand for P2S5 following destocking in previous periods, higher demand for fire safety products due to a large number of fires in Canada, the contribution of the YPH JV in China to our Industrial Specialties and Acids business lines, improved performance of our distribution partners in Europe, strong demand for coating products and new customers for our magnesium-based products.

This contribution was partially offset by competitive markets in the EU due to the ban on the use of phosphate based products in automated dishwashers (ADW), the weakness in the Brazilian economy and low oil prices which negatively affected sales to oil drilling companies.

ICL Food Specialties performance is favorably impacted by growing demand for protein-enriched, unprocessed ("clean label") and non-allergenic ("free-from") food as well as increased manufacturing capacity in North America, South America and Europe, somewhat offset by the extension of the cross sanctions between the West and Russia through the end of January 2017, by competition for euro-denominated exports to Poland and the UK due to the weakness of the local currencies and an increasingly competitive environment in North America.

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[7] The estimates regarding ICL's ability to improve the business performance of the joint venture constitute "forward-looking" information, and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, fluctuations in the world markets for phosphates and its related products, particularly in the phosphate market in China, including, among other things, changes in the level of supply and demand, extreme changes in the weather conditions, in the prices of the products, commodities and grains, the prices of the inputs, and the shipping and energy costs, and they may be impacted by regulation and actions taken by governments, legislation manufacturers and consumers. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Set forth below are the highlights of the changes in the cash flows of ICL in the second quarter of 2016, compared with the corresponding quarter last year:

Net cash provided by operating activities:

In the second quarter of 2016, the cash flows provided by operating activities decreased compared with the corresponding quarter last year by $87 million. This decrease stems mainly from an increase in the working capital, compared with a decline in the working capital in the corresponding quarter last year (stemming mainly from a decline in the trade receivables) due to the strike at ICL Dead Sea and ICL Neot Hovav.

Net cash used in investing activities:

In the second quarter of 2016, the cash flows used in investing activities decreased compared with the corresponding quarter last year, by $25 million. This decrease stems mainly from investments in business combinations, in the amount of $96 million, paid in the corresponding quarter last year, which was partially offset by proceeds received from sale of businesses that are not part of the Company's core businesses, in the amount of $31 million, and as a result of realization of short-term deposits and sale of securities, in the amount of $44 million.

Net cash used in financing activities:

In the second quarter of 2016, there was a decrease of $38 million in the cash flows used in financing activities compared with the corresponding quarter last year. The main factor causing the decrease is payment of a lower dividend, in the amount of $109 million, compared with the corresponding quarter last year (reflects the decrease in the net profit), while on the other hand, there was an increase in loans taken out, net of repayment of loans, in the amount of $71 million, compared with the corresponding quarter last year.

Debt movement:

As at June 30, 2016, the net financial liabilities of ICL amounted to $3,440 million, an increase of $210 million compared with the balance at the end of 2015. The debt increase is mainly due to the purchase of 15% of the shares of the public company Yunan Yuntianhua, the shares of which are traded on the Chinese stock exchange, in the aggregate amount of $250 million.

ICL’s sources of financing are short-term and long-term bank loans, mostly from international banks and Israeli institutions, debentures and securitization of customer receivables, whereby some of the Group companies sell customer receivables in return for providing a credit facility. The total amount of the securitization framework and credit facility deriving therefrom amounts to $405 million. As at June 30, 2016, ICL had used $230 million of the securitization facility.

ICL also has long-term credit facilities of $1,890 million and €100 million, of which $731 million had not been used as of June 30, 2016.

As at the date of the report, ICL is in compliance with the financial covenants stipulated in its financing agreements.

For additional information regarding new credit facilities, amounts raised and issuance of a new series of debentures (Series E) – see Note 5B to the condensed consolidated interim financial statements included in this report.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Dividend policy

In March 2016 ICL's Board of Directors decided to adapt its dividend policy. For 2016 and 2017, ICL's dividend payout ratio will comprise up to 50% of its adjusted annual net income, compared to the prior policy of up to 70% of the net income. This adaptation will serve to increase certainty for ICL's shareholders regarding ICL's distribution of dividends while maintaining ICL's financial strength. ICL's Board of Directors will revisit the dividend policy once market conditions stabilize.

ICL's Board of Directors decided to distribute a dividend in the amount of $60 million, or $0.05 per share, which will be paid on September 27, 2016, in respect of ICL's results for the second quarter 2016.

Directors and senior management members of ICL

In March 2016, ICL notified that Mr. Eran Sarig, an ICL director, completed his position on ICL's Board of Directors, this being further to conclusion of his service as an officer in Israel Corporation Ltd. (ICL's controlling shareholder).

Mr. Asher Grinbaum, former Executive Vice President & COO, retired on July 1, 2016. Mr. Charlie Weidhas, former CEO of ICL Industrial Products, replaced Mr. Grinbaum. At ICL's request, Mr Grinbaum agreed to continue to serve ICL in a part-time position and to provide consulting services in connection with a number of its main projects.

In March, 2016, ICL announced that Mr. Nir Gilad, Executive Chairman of the Board of Directors, will be retiring on September 1, 2016. In April, 2016, ICL's Board of Directors decided to appoint Mr. Johanan Locker as member of ICL's Board of Directors, commencing as of the above date, and as Executive Chairman of the Board, effective no later than September 1, 2016. Mr. Johanan Locker commenced his service, as referred to above, on August 15, 2016. ICL will convene an extraordinary General Meeting on August 29, 2016 of the shareholders, in order to approve the terms of Mr. Locker's service.

As of May 1, 2016, Mr. Karl Georg Mielke, President & CEO of ICL Specialty Fertilizers, Ms. Lisa Haimovitz, Senior Vice-President and Global General Counsel & Company Secretary and Mr. Ido Lilian, Executive Vice President, ICL Global Procurement, are no longer considered executive officers of ICL.

On July 7, 2016, Mr. Rani Loebenstein was appointed Head of the ICL Corporate Relations Unit. From the date of his appointment, Mr. Loebenstein is considered an executive officer of ICL.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Derivative actions

On July 10, 2016 and July 19, 2016, two petitions for approval of derivative actions were submitted to the Economic Division of the Tel-Aviv District Court, by two different shareholders, regarding the annual bonuses paid with respect to 2014-2015 to the five highest paid senior officers of ICL, including the CEO and the Chairman, allegedly in a manner not conforming to ICL's Compensation Policy and not in the best interest of ICL.

The first petition, for an estimated amount of NIS 18 million (approximately $5 million), was submitted against the five highest paid senior officers of the Company and alternatively, against the members of the Compensation Committee who approved grant of the bonuses. ICL is requested to compel the five highest paid senior officers to return the bonuses, and should they fail to comply with this request, file a claim against the members of the Compensation Committee.

The second petition, for an estimated amount of NIS 21 million (approximately $6 million), was submitted against ICL, the five highest paid senior officers and the members of the Board who approved grant of the bonuses. The Court is requested to compel the five highest paid senior officers and other ICL officers, to return the bonuses. Alternatively, the Court is requested to demand that the members of the Board compensate ICL for damages incurred in respect of approval of these grants.

Due to the early stage of both petitions, it is not possible to estimate the chances that the Court will accept them. ICL strongly rejects the petitions and will submit its response to the Court according to the law.

In addition, ICL subject to various litigation and other legal proceedings. For a discussion relating to the developments of this matter – see Note 6B to the condensed consolidated interim financial statements.

Summoning of a General Meeting in order to update the remuneration policy of ICL's officers

On July 24, 2016, ICL published a summons for an extraordinary General Meeting of its shareholders that is to be convened on August 29, 2016, in order to, among other things, approve the new remuneration policy for ICL officers. On the Day's Agenda for the Meeting, in addition to approval of the new remuneration policy, is approval of the appointment of Mr. Johanan Locker as a director of ICL, including approval of the terms of his employment as the Chairman of ICL's Board of Directors, and approval of granting of equity compensation to Mr. Stefan Borgas, ICL's CEO, for 2016.

Events Occurring during the Period of the Report and Thereafter (Barnea Update)

Allana Afar tax assessments – for details see Note 6B(1) to the interim financial statements.
Dispute in Haifa Chemicals – for details see Note 6B(3) to the interim financial statements.
Dead Sea Works collective agreement – for details see Note 6B(4) to the interim financial statements.
Update of tax provisions – for details see Note 6B(5) to the interim financial statements.
Provision for tax in Belgium – for details see Note 6B(6) to the interim financial statements.
Removal of statement of claim filed in the United States against ICL – for details see Note 6B(2) to the interim financial statements.
Granting of equity compensation – for details see Note 5B(6) to the interim financial statements.
Dividends – for details regarding distribution of dividends see the Additional Information in the separate-company (solo) financial statements.
Summoning of an extraordinary General Meeting – for details regarding the summoning of an extraordinary General Meeting see the ICL section above.
Derivative claims – for details regarding filing of a request for certification of derivative claims see the ICL section above.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Events Occurring during the Period of the Report and Thereafter (Barnea Update) (Cont.)

Update of ICL's operational structure

ICL is formulating the administrative structure of its business and operational units into two divisions: The Essential Minerals Division and the Specialty Solutions Division. For purposes of creating correspondence to the administrative structure, ICL is in the process of examining the presentation of the activity segments in its financial statements in accordance with generally accepted accounting principles. ICL's statements for the second quarter of 2016 reflect the results of its activities and the operation of its business units pursuant to the new administrative structure, as stated above.

As noted above, commencing from May 1, 2016, the Company operates via two divisions: the Essential Minerals Division and the Specialty Solutions Division.

The Essential Minerals Division – this division includes the ICL Potash & Magnesium, and ICL Phosphate business units. The division focuses on efficiency, process innovation and operational excellence.

1. **ICL Potash & Magnesium** – ICL Potash & Magnesium extracts potash from the Dead Sea and mines and produces potash and salt from subterranean mines in Spain and the UK. ICL Potash & Magnesium processes the potash into its types and markets it globally. The Magnesium business markets and sells pure magnesium and magnesium alloys. It also produces dry carnallite and related by-products, including chlorine and sylvinite.

2. **ICL Phosphate** – ICL Phosphate mines and processes phosphate rock from open pit mines – three of which are located in the Negev Desert in Israel while the fourth is situated in the Yunnan province in China – and produces sulfuric acid, agricultural phosphoric acid and phosphate fertilizers in its facilities in Israel and China. ICL Phosphate also manufactures compound fertilizers in the Netherlands and Germany as well as phosphate-based food additives for livestock in Turkey and in Israel. ICL Phosphate markets its products worldwide, mainly in Europe, Brazil, India and China.

The Specialty Solutions Division – this division includes four business units: ICL Industrial Products, ICL Specialty Fertilizers, ICL Advanced Additives and ICL Food Specialties. The division concentrates on achieving growth through a highly-tailored customer focus, product innovation and commercial excellence.

1. **ICL Industrial Products –** ICL Industrial Products produces bromine out of a solution that is created as a by-product of the potash production process in Sodom, Israel, as well as bromine-based compounds. ICL Industrial Products uses most of the bromine it produces for self-production of bromine compounds at production sites in Israel, the Netherlands and China. In addition, ICL Industrial Products is engaged in the production and marketing of phosphorous flame retardants and additional phosphorus-based products.

2. **ICL Specialty Fertilizers** – ICL Specialty Fertilizers manufactures compound fertilizers in the Netherlands and Belgium, liquid fertilizers and soluble fertilizers in Israel and Spain and slow-release fertilizers and controlled-release fertilizers in the Netherlands and in the United States. ICL Specialty Fertilizers markets its products worldwide, mainly in Europe, North America and Israel.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Events Occurring during the Period of the Report and Thereafter (Barnea Update) (Cont.)

Update of ICL's operational structure (Cont.)

3. **ICL Advanced Additives** – ICL Advanced Additives business unit primarily develops, produces, markets and sells a broad range of acids, specialty phosphates and specialty minerals for different applications in a broad range of industries, including metal and water treatment, paints and coatings, forest fire retardants, cleaning materials, oral hygiene, carbonated drinks, asphalt modification, deicing, nutrition, pharma, specialty steel, fuel additives and rubber. That stated above is part of ICL's strategy of increasing its production of downstream products with higher added value. This business unit purifies some of the agricultural phosphoric acid manufactured by ICL Phosphate and also manufactures thermal phosphoric acid. The purified phosphoric acid and the thermal phosphoric acid are used to manufacture downstream products with high added value – phosphate salts and acids – which are used in the various industries mentioned above. The product line of ICL's Advanced Additives business unit is further comprised of processed magnesium products used for the paper industry, cleaning materials and oil additives, catalysts and stabilizers.

4. **ICL Food Specialties** – ICL Food Specialties is a leader in creative food ingredients and phosphate additives, which provide texture and stability solutions for the processed meat, fish, dairy, beverage and baked-goods food markets. In addition, the business unit produces milk and whey proteins for the food ingredient industry. The business unit operates primary production locations in Germany and Austria, which primarily process phosphates, milk and spices. The business unit runs several local blending facilities in Germany, the UK, the United States, Brazil, China and Australia which enable ICL to produce "customer specific" solutions that meet the requirements of the local market.

As part of the financial statements for the second quarter of 2016, ICL's business results are presented in accordance with the divisions described above. ICL is still in the process of examining its operating segments and, therefore, there may be adjustments to the current presentation in future financial statements.

In addition, shortly prior to publication of ICL's results for the second quarter and in order to assist investors and analysts to prepare for the expected updated presentation format of the results, as stated, on July 29, 2016, ICL published comparative data with respect to sales, operating income and adjusted operating income of the two above-mentioned divisions for the following periods: 2014 and 2015, first quarter through fourth quarter of 2015 and first quarter of 2016. In addition, ICL published the breakdown of the sales of the business units that are included in the two divisions.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Events Occurring during the Period of the Report and Thereafter (Barnea Update) (Cont.)

ICL UK – for details regarding ICL's decision to accelerate the transition from production and manufacture of potash to manufacture of Polysulphate in ICL's mine at ICL UK see the Business Environment part of the ICL section above.
YPH – for details regarding acceleration of the efficiency plan of the joint venture in China see the Business Environment part of the ICL section above.
Industrial Products business unit – for details regarding prices of the elemental bromine, sales of the FR122P product, sales of the FR–245 product, sales of clear brine solutions, the contribution of the efficiency measures, completion of the sale of Clearon and sales of phosphorous-based flame retardants see the Business Environment part of the ICL section above.
Business Environment – for details regarding changes in the business environment based on ICL's activity divisions, including signing of contracts for sale of potash in India and China see the Business Environment part of the ICL section above.
Financing – for details regarding issuance of debentures and an undertaking in credit facilities and utilization thereof see Note 5B to the interim financial statements. For details regarding changes in the composition of ICL's liabilities and compliance with financial covenants see the Liabilities part of the ICL section above.
Financing – for details regarding changes in the composition of ICL's Board of Directors and the members of its senior management see the Board of Directors and Members of Senior Management part of the ICL section above.

OIL REFINERIES LTD.

The price of the "Brent" crude oil decreased in January 2016 to about $26 per barrel, the lowest price in the past 12 years. The decline in further to the trend in 2015 and is explained by, among other things, the following items: an increase in the supply of the crude oil and the inventories, the decision of the United States to allow export of crude oil, the nuclear agreement with Iran and the lower than expected growth in Europe and China.

As the period ran on, the trend changed and the price of the "Brent" crude oil began to rise, such that in the beginning of June 2016 it crossed the $50 per barrel threshold. This increase is mainly due to a gradual decline in the inventories and an expectation of a leveling out of the supply and the demand in the oil market for the first time since 2013. At the end of June 2016, the price of the "Brent" crude oil dropped to about $48 per barrel against the background of instability in the financial and commodity markets together with the decision of the U.K. to exit the European Block.

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

Results of operations for the period April – June 2016

ORL completed the second quarter with income of about $87 million, compared with income of about $116 million in the corresponding period last year. Without the impact of IFRS 9 (2013), ORL finished the period of the report with income of about $87 million, compared with a loss of about $112 million in the corresponding period last year.

OIL REFINERIES LTD. (Cont.)

Results of operations for the period April – June 2016 (Cont.)

In order to present the results of ORL's activities on an economic basis as well, and for purposes of comparison with the benchmark margin, the accounting effects in the fuel segment are adjusted and presented in a way that ORL believes will allow better understanding of its performance and closer comparison with the benchmark margin (regarding the components of the adjustment – see below).

	4–6/2016		4–6/2015	
	Accounting	Adjusted	Accounting	Adjusted
	$ millions			
Sales	**1,132**	**1,132**	1,524	1,524
Operating income – segments	**170**	**113**	226	187
Operating income	**136**	**79**	182	143
Financing expenses, net	**(26)**	**(26)**	(43)	(43)
Taxes on income	**(23)**	**(23)**	(23)	(23)
Net income	**87**	**30**	116	77

During the second quarter of 2016, all of Carmel Olefins plants and part of ORL's downstream plants, including for gasoline production, were shut down for periodic maintenance. According to ORL's assessment, the estimated total loss of profits caused to it due to this shutdown, most of which in the second quarter's results, amounts to $50 million ($5 million in the fuels segment and $45 million in the polymer segment – Carmel Olefins).

Sales in the fuels segment in the second quarter 2016 amounted to about $975 million, compared to about $1,329 million in the corresponding period last year. The average price per ton of the product mix in the Mediterranean region, similar to ORL's mix, amounted to about $384 in the second quarter of 2016, compared to about $552 in the corresponding period last year. The decrease in the average price of the mix is mainly due to a decrease in energy prices, parallel with the drop in the crude oil prices.

Domestic consumption of distillates (transportation, industrial and heating fuels) remained unchanged in the second quarter of 2016, compared to the corresponding period last year. There was an increase of 4% in consumption of transportation fuels (gasoline, diesel and kerosene) compared to the corresponding period last year.

Sales of the polymer segment – Carmel Olefins in the second quarter of 2016 amounted to about $108 million, compared to about $168 million in the corresponding period last year, a decrease of about $60 million. This decrease is mainly due to a decrease of about $44 million in sales volume due to the periodic maintenance, and a decrease of about $16 million in selling prices. The average price of the product mix was about $1,266 per ton compared to about $1,444 per ton in the corresponding period last year.

Sales of aromatics segment – Gadiv in the second quarter of 2016 amounted to about $105 million, compared to about $121 million in the corresponding period last year. The decrease of about $16 million is mainly due to a price decrease of about $20 million and decrease in other income of about $2 million, offset by an increase in volume in the amount of about $6 million. The average price of the product mix was about $651 per ton compared to about $791 per ton in the corresponding period last year.

Sales of polymer segment – Ducor in the second quarter of 2016 amounted to about $52 million, compared to about $65 million in the corresponding period last year. The decrease of about $13 million is mainly due to a price decrease of about $14 million, offsetting the increase in sales volume of about $1 million. The average price of the product mix was about $1,116 per ton compared to about $1,442 per ton in the corresponding period last year.

OIL REFINERIES LTD. (Cont.)

Results of operations for the period April – June 2016 (Cont.)

The adjusted EBITDA of ORL in the second quarter, amounted to about $113 million, compared with adjusted EBITDA of about $187 million in the corresponding period last year.

Set forth below are the adjusted components of the EBITDA in the fuels' segment:

	April–June	
	2016	**2015**
	$ millions	
Increase (decrease) in the accounting income		
Income from timing differences (1)	**(32)**	(21)
Income from adjustment of value of inventory to market value, net (2)	**(5)**	(9)
Impacts of changes in fair value of derivatives and sales thereof (3)	**(20)**	(9)
Total adjustments in the fuels' segment	**(57)**	(39)

(1) Expenses (income) arising from changes in the value of unhedged inventory. In accordance ORL's policy, ORL does not hedge the inventory of up to 430 thousand tons.

(2) Expenses (income) arising from changes in the accounting provision for adjustment of hedged inventory to market value and expenses (income) from changes in accounting provision for impairment of unhedged inventory, at the end of the period of the report.

(3) Expenses (income) arising from changes in the revaluation of the fair value of open positions that do not relate to hedged inventory (hedging transactions on future cash flow exposure for purchase of base inventory and hedging of refining margins). The cumulative, non-cash, gain or loss in respect of these positions, will be recorded in the adjusted EBITDA when realized. During the quarter, part of the amount derives from non-cash realization of a loss on positions not relating to the hedged inventory.

	April–June	
	2016	**2015**
Accounting margin	**69.6**	89.9
Adjustments in the fuels' segment	**(23.7)**	(17.3)
Adjusted margin	**45.9**	72.6
Adjusted margin – dollar per barrel	**6.3**	10.0
Benchmark margin – dollar per barrel	**3.2**	4.9

In the second quarter of 2016, the adjusted refining margin amounted to about $6.3 per barrel compared to about $10.0 per barrel in the corresponding period last year. The main factors for the refining margin decrease compared with the corresponding period last year are: a decline in the benchmark margin of about $1.7 per barrel, significant erosion of the contribution of natural gas due to the sharp decrease in the price of fuel oil that constitutes an alternative energy index to natural gas and due to the fact that there is a minimum natural gas price, erosion of the contribution of the Hydrocracker due to the reduced margin for diesel over HVGO (the main raw material for the Hydrocracker).

OIL REFINERIES LTD. (Cont.)

Results of operations for the period April – June 2016 (Cont.)

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

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

The net financing expenses in the second quarter amounted to about $26 million, compared with about $43 million in the corresponding period last year. Without the impact of IFRS 9 (2013), which is not applied by the Corporation, the net financing expenses in the second quarter amounted to about $28 million, compared with about $48 million in the corresponding period last year.

Results of operations for the period January – June 2016

ORL completed the period of the report with income of about $115 million, compared with income of about $185 million in the corresponding period last year. Without the impact of IFRS 9 (2013), ORL finished the period of the report with income of about $124 million, compared with income of about $192 million in the corresponding period last year.

In order to present the results of ORL's activities on an economic basis as well, and for purposes of comparison with the benchmark margin, the accounting effects in the fuel segment are adjusted and presented in a way that ORL believes will allow better understanding of its performance and closer comparison with the benchmark margin (regarding the components of the adjustment – see below).

	1–6/2016		**1–6/2015**	
	Accounting	**Adjusted**	**Accounting**	**Adjusted**
	$ millions			
Sales	**2,057**	**2,057**	2,956	2,956
EBITDA	**267**	**236**	384	402
Operating income	**200**	**169**	305	323
Financing expenses, net	**(62)**	**(62)**	(78)	(78)
Taxes on income	**(23)**	**(23)**	(42)	(42)
Net income (loss)	**115**	**84**	185	203

Revenues of ORL's sectors without inter-segment eliminations

Sales in the fuels segment amounted to about $1,742 million in the period of the report, compared to about $2,570 million in the corresponding period last year. The average price per ton of the mix in the Mediterranean area, similar to ORL's product mix, amounted to about $349 in the Period of the report, compared to about $522 in the corresponding period last year. The decrease in the average price of the product mix is mainly due to a decrease in energy prices, parallel with the drop in the crude oil prices.

Domestic consumption of distillates (transportation, industrial and heating fuels) rose by 2% compared to the corresponding period last year. There was an increase of 5% in consumption of transportation fuels (gasoline, diesel and kerosene) compared to the corresponding period last year.

OIL REFINERIES LTD. (Cont.)

Results of operations for the period January – June 2016 (Cont.)

Sales of the polymer segment – Carmel Olefins amounted to about $250 million in the period of the report, compared to about $333 million in the corresponding period last year, a decrease of about $83 million. This decrease is due to a decrease of about $59 million in sales quantities offset by an increase of about $24 million in selling prices. The average price of the product mix was about $1,227 per ton compared to about $1,342 per ton in the corresponding period last year.

Sales of aromatics – Gadiv amounted to about $197 million in the period of the report, compared to about $233 million in the corresponding period last year. The decrease of about $36 million is mainly due to a price decrease of about $33 million and a decrease of about $3 million in other income. The average price of the product mix was about $625 per ton compared to about $735 per ton in the corresponding period last year.

Sales of polymer segment – Ducor amounted to about $98 million in the period of the report, compared to about $123 million in the corresponding period last year. The decrease of about $25 million is mainly due to a price decrease of about $19 million and a decrease of about $6 million in sales volume. The average price of the product mix was about $1,086 per ton compared to about $1,302 per ton in the corresponding period last year.

The adjusted EBITDA of ORL in the period of the report, amounted to about $236 million, compared with adjusted EBITDA of about $402 million in the corresponding period last year.

Set forth below are the adjusted components in the fuels' segment:

	January–June	
	2016	**2015**
	$ millions	
Increase (decrease) in the accounting income		
Expenses (income) from timing differences (1)	**(17)**	22
Expenses (income) from adjustment of value of inventory to market value, net (2)	**19**	(11)
Impact of changes in fair value of derivatives and sales thereof (3)	**(33)**	7
Total adjustments in the fuels' segment	**(31)**	18

(1) Expenses (income) arising from changes in the value of unhedged inventory. In accordance ORL's policy, ORL does not hedge the inventory of up to 430 thousand tons.

(2) Expenses (income) arising from changes in the accounting provision for adjustment of hedged inventory to market value and expenses (income) from changes in accounting provision for impairment of unhedged inventory, at the end of the period of the report.

(3) Expenses (income) arising from changes in the revaluation of the fair value of open positions that do not relate to hedged inventory (hedging transactions on future cash flow exposure for purchase of base inventory and hedging of refining margins). The cumulative, non-cash, gain or loss in respect of these positions, will be recorded in the adjusted EBITDA when realized. During the quarter, part of the amount derives from non-cash realization of a loss on positions not relating to the hedged inventory.

OIL REFINERIES LTD. (Cont.)

Results of operations for the period January – June 2016 (Cont.)

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

	April–June	
	2016	**2015**
Accounting margin	**54.0**	75.6
Adjustments in the fuels' segment	**(6.5)**	3.8
Adjusted margin	**47.5**	79.4
Adjusted margin – dollar per barrel	**6.5**	10.9
Benchmark margin – dollar per barrel	**3.5**	5.4

In the reporting period, adjusted refining margins dropped to about $6.5 per ton, compared to about $10.9 per ton in the corresponding period last year. The main factors for the refining margin decrease compared with the corresponding period last year are: a decline in the benchmark margin of about $1.9 per barrel, significant erosion of the contribution of natural gas due to the sharp decrease in the price of fuel oil that constitutes an alternative energy index to natural gas and due to the fact that there is a minimum natural gas price, erosion of the contribution of the Hydrocracker due to the reduced margin for diesel over HVGO (the main raw material for the Hydrocracker).

The net financing expenses in the period of the report amounted to about $62 million, compared with about $78 million in the corresponding period last year. Without the impact of IFRS 9 (2013), which is not applied by the Corporation, the net financing expenses in the period of the report amounted to about $53 million, compared with about $70 million in the corresponding period last year.

Other developments in the period of the report and thereafter

1. As of the second quarter of 2016, periodic maintenance work began in a major and significant part of ORLs plants. In the second quarter, periodic maintenance was carried out in all of Carmel Olefins plants, in one of ORL's gasoline production plants and its ancillary plants. The direct costs of this periodic maintenance work amounted to about $50 million (about $4 million in the Company and about $46 million in Carmel Olefins), of which as at June 30, 2016, an amount of about $23 million has not yet been paid. In the third quarter periodic maintenance is being carried out in part of ORL's plants, particularly in its main crude oil refining plant (CDU 4).

   ORL estimates that the total cost of the planned periodic maintenance in 2016 is about $140 million – $180 million.

   It is clarified that the forgoing with regard to the total costs for the planned maintenance work in 2016 is forward-looking information the realization of which is uncertain and is not solely in the control of the Company. The maintenance cost estimate is dependent on various factors regarding which there is uncertainty, including the condition of the serviced plants, which may require additional repairs and servicing, in addition to those predicted, and could also adversely affect the Company's operating results. Therefore, there is no certainty that the assessments will materialize, in full or in part, and this could result in the periodic maintenance costs being different from the forecast.

2. Further to the financial actions taken in the preceding quarters in order to improve the structure of the financial debt and the liquidity, extension of the average life of the long-term liabilities, and reduction of the financing costs, ORL's Board of Directors instructed ORL's management to examine possibilities to refinance its long-term debt to financial institutions.

OIL REFINERIES LTD. (Cont.)

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

3. Further to that stated in Section 9.14.2 of the Periodic Report with regard to draft emissions permits for the wholly owned subsidiaries, Carmel Olefins Ltd., Gadiv Petrochemical Industries Ltd. and Haifa Basic Oils Ltd. (hereinafter – "the Subsidiaries"), the Subsidiaries received emissions permits from the Ministry of Environmental Protection valid for seven years through to 2023. ORL and its subsidiaries are reviewing the details of the emissions permits issued and are reviewing the actions they will be required to take following their issue, including the investments required in the Subsidiaries' plants in order for them to comply with the provisions of these permits, and the scope thereof.

   Further to the provisions of Section 9.12.4 of the Periodic Report regarding approval by the District Planning and Building Board (Haifa District) of the Site Plan for the land on which the plants of ORL's companies are located (hereinafter – "the Plan"), and regarding the appeals filed in connection with the said approval with the National Planning and Building Board, subsequent to the date of the report, on July 14, 2016, ORL received the decision of the Appeals Sub-Committee of the National Planning and Building Board, which approved the Plan with the modifications as set out in the decision and rejected most of the claims in the appeals filed against it. Once the Plan is duly published, building permits may be issued thereunder, in accordance with its provisions and the decisions of the Local Board.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT

List of Transactions for Hedging Exposures (Table of Positions in Derivatives) of the Corporation on a Consolidated Basis as at June 30, 2016

	Recognized for Accounting Purposes				Not Recognized for Accounting Purposes			
	Par Value		Fair Value		Par Value		Fair Value	
	Long	Short	Long	Short	Long	Short	Long	Short
	Millions of Dollars							
Hedging changes in variable (LIBOR) interest rate on dollar loans (1)								
Up to one year								
IRS transactions	–	–	–	–	30	–	(1)	–
More than one year								
IRS transactions	–	–	–	–	350	–	(20)	–
Hedging changes in exchange rate and interest rate on loans								
Up to one year								
SWAP to dollar liability with variable interest from index-linked liability with fixed interest	–	–	–	–	–	44	–	(8)
SWAP to dollar liability with fixed interest from index-linked liability with fixed interest	–	19	–	–	–	14	–	(1)
SWAP to dollar liability with fixed interest from shekel liability with fixed interest	–	16	–	–	–	–	–	–
More than one year								
SWAP to dollar liability with variable interest from index-linked liability with fixed interest	–	–	–	–	–	177	–	(4)
SWAP to dollar liability with fixed interest from index-linked liability with fixed interest	–	87	–	5	–	56	–	–
SWAP to dollar liability with fixed interest from shekel liability with fixed interest	–	86	–	–	–	563	–	(19)
Transactions hedging energy prices and shipping fees								
Up to one year	–	–	–	–	17	–	–	–
Transactions hedging share prices – more than one year								
Call option on ICL share	–	–	–	–	–	140	–	(1)
Put option on ICL share	–	–	–	–	–	140	–	90

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

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

List of Transactions for Hedging Exposures (Table of Positions in Derivatives) of the Corporation on a Consolidated Basis as at June 30, 2016

	Recognized for Accounting Purposes				Not Recognized for Accounting Purposes			
	Par Value		Fair Value		Par Value		Fair Value	
	Long	Short	Long	Short	Long	Short	Long	Short
	Millions of Dollars							
Hedging changes in exchange rates on cash flows (2)								
Up to one year								
Euro/Dollar								
Forward contract	–	–	–	–	110	–	–	–
Call options	–	–	–	–	49	–	–	–
Put options	–	–	–	–	49	–	1	–
Shekel/Dollar								
Forward contract	–	–	–	–	–	222	–	–
Call options	–	–	–	–	–	621	–	(7)
Put options	–	–	–	–	–	621	–	10
Yen/Dollar								
Forward contract	–	–	–	–	4	–	–	–
Call options	–	–	–	–	3	–	–	–
Put options	–	–	–	–	3	–	–	–
Pound/Euro								
Pound/euro up to one year	–	–	–	–	–	15	–	–
Call options pound/euro	–	–	–	–	–	15	–	(1)
Put options pound/euro	–	–	–	–	–	15	–	–
Pound/Dollar								
Pound/dollar up to one year	–	–	–	–	30	–	(1)	–
Call options pound/dollar	–	–	–	–	–	20	–	–
Put options pound/dollar	–	–	–	–	–	20	–	(1)
Chinese Yuan/Dollar								
Forward contract	–	–	–	–	30	–	1	–
Canadian Dollar/Dollar								
Forward contract	–	–	–	–	–	6	–	–
Other	–	–	–	–	21	–	–	–

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

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

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

1. Currency risk – as a result of changes in the exchange rates of various currencies in reference to the exchange rate of the dollar with respect to which the Corporation measures the exposure.

2. Interest rates risk – as a result of changes in the market interest rates.

3. Price risk – as a result of changes in market prices.

4. Index risk – as a result of changes in the CPI.

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

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

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

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to changes in shekel interest linked to the CPI:

	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 100 base points	Rise of 50 base points		Fall of 50 base points	Fall of 100 base points
Instrument Type					
Debentures	20	10	(834)	(11)	(21)
SWAP transactions from index to dollar*	(11)	(6)	(8)	6	12
Total	**9**	**4**	**(842)**	**(5)**	**(9)**

Sensitivity to changes in shekel interest:

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 100 base points	Rise of 50 base points		Fall of 50 base points	Fall of 100 base points
Instrument Type					
Long-term loans from banks	8	4	(165)	(4)	(9)
Debentures	32	16	(710)	(17)	(35)
SWAP transactions from index and shekel interest shekel to variable dollar*	(6)	(3)	(11)	3	7
SWAP transactions from index and shekel to fixed dollar*	(47)	(25)	(15)	22	47
Total	**(13)**	**(8)**	**(901)**	**4**	**10**

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

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to changes in fixed dollar interest rate:

	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 100 base points	Rise of 50 base points		Fall of 50 base points	Fall of 100 base points
Instrument Type					
Long-term loans from banks	22	11	(927)	(12)	(23)
Debentures	76	39	(1,252)	(40)	(82)
SWAP transactions from index and shekel to fixed dollar*	(31)	(17)	(15)	14	30
IRS transactions variable to fixed*	16	8	(21)	(8)	(17)
Call options on ICL share (sold)	–	–	(1)	–	–
Put options on ICL share (purchased)	(3)	(2)	90	2	3
Total	**80**	**39**	**(2,126)**	**(44)**	**(89)**

Sensitivity to changes in fixed euro interest rate:

	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 100 base points	Rise of 50 base points		Fall of 50 base points	Fall of 100 base points
Instrument Type					
Long-term loans from banks	1	1	(34)	(1)	(1)
Total	**1**	**1**	**(34)**	**(1)**	**(1)**

Sensitivity to changes in the CPI:

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Debentures	(83)	(42)	(834)	42	83
SWAP transactions from index to dollar*	44	22	(8)	(22)	(44)
Total	**(39)**	**(20)**	**(842)**	**20**	**39**

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

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to changes in exchange rates:
(An increase means strengthening of the dollar against the counter currency, a decrease means weakening of the dollar against the counter currency)

Shekel/USD

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Cash and cash equivalents	(59)	(30)	589	30	59
Trade receivables	(6)	(3)	56	3	6
Trade and other payables	21	11	(212)	(11)	(21)
Other payables and credits	16	8	(158)	(8)	(16)
Long-term bank loans	15	8	(165)	(9)	(18)
Debentures	140	74	(1,544)	(81)	(172)
SWAP transactions from shekel to dollar*	(110)	(57)	(27)	64	135
Currency options	(59)	(25)	2	28	62
Forward currency transactions	(20)	(11)	–	12	25
Call options on ICL share (sold)	1	–	(1)	–	(1)
Put options on ICL share (purchased)	11	6	90	(6)	(12)
Total	**(50)**	**(19)**	**(1,370)**	**22**	**47**

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

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Sensitivity to changes in exchange rates: (Cont.)

EURO/USD

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Cash and cash equivalents	(3)	(2)	32	2	3
Trade receivables	(25)	(13)	252	13	25
Credit from banks and others	8	4	(85)	(4)	(8)
Trade and other payables	14	7	(143)	(7)	(14)
Other payables and credits	7	3	(66)	(3)	(7)
Long-term loans from banks	7	3	(69)	(3)	(7)
Currency options	5	2	1	(2)	(5)
Forward transactions	12	6	–	(5)	(10)
Total	**25**	**10**	**(78)**	**(9)**	**(23)**

£\USD

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Cash and cash equivalents	(1)	–	7	–	1
Trade receivables	(6)	(3)	61	3	6
Credit from banks and others	3	2	(33)	(2)	(3)
Trade and other payables	4	2	(37)	(2)	(4)
Other payables and credits	1	1	(11)	(1)	(1)
Other options	(3)	(2)	(1)	–	1
Forward transactions	3	2	(1)	(1)	(3)
Total	**1**	**2**	**(15)**	**(3)**	**(3)**

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

Chinese Yuan\USD

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Cash and cash equivalents	(7)	(4)	71	4	7
Trade receivables	(14)	(7)	142	7	14
Assets available for sale	(26)	(13)	255	13	26
Credit from banks and others	17	9	(170)	(9)	(17)
Trade and other payables	14	7	(143)	(7)	(14)
Other payables and credits	1	1	(14)	(1)	(1)
Long-term loans from banks	9	5	(91)	(5)	(9)
Forward transactions	3	1	1	(2)	(3)
Total	**(3)**	**(1)**	**51**	**–**	**3**

Sensitivity to changes in share prices:

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Call option on ICL share (sold)	(1)	(1)	(1)	1	1
Put option on ICL share (purchased)	2	1	90	(1)	(2)
Total	**1**	**–**	**89**	**–**	**(1)**

Sensitivity to changes in fluctuation of the share:

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Call option on ICL share (sold)	(1)	–	(1)	–	1
Put option on ICL share (purchased)	(11)	(6)	90	6	12
Total	**(12)**	**(6)**	**89**	**6**	**13**

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT (Cont.)

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

	Increase (decrease) in fair value	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 15%	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%	Fall of 15%
Instrument Type							
Asset available for sale	38	26	13	255	(13)	(26)	(38)

UPDATE REGARDING DESCRIPTION OF THE CORPORATION'S BUSINESS

Set forth below are significant updates and/or changes in the Corporation's business that occurred from the publication date of the of the Corporation's Annual Report for 2015 on March 31, 2016 and up to the publication date of this report[8]:

To Section 4 of Paragraph A of the Periodic Report – Acquisition, sale or transfer of assets and to Regulation 22 to Part D of the Periodic Report – Additional Details regarding the Corporation

On April 6, 2016, the Corporation published an Immediate Report regarding provision of a loan to Kenon Holdings Ltd. For additional details – see the Corporation's Immediate Report dated April 6, 2016 (Ref. No. 2016-01-042748).

For additional details regarding business developments in ORL – see the Report of Board of Directors dated June 30, 2016.

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

A. On April 5, 2016, a rating report was published by the Maalot rating company in connection with a rating for the debentures issues by ICL (Ref. No. 2016-01-042043).

B. Regarding ICL's financial statements as at March 31, 2016 and the presentation to investors published by ICL as a result thereof – see the Corporation's Immediate Reports dated May 19, 2016 (Ref. Nos. 2016-01-029166 and 2016-01-029175).

C. Regarding a rating report of ICL – see the Immediate Report dated June 21, 2016 (Ref. No. 2016-01-053673).

D. Regarding the Examiner's decision in an arbitration proceeding – see the Immediate Report dated June 28, 2016 (Ref. No. 2016-01-067909).

[8] Update of the Corporation's business is prepared in accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 1970, and includes significant changes or new developments in the Corporation's business that occurred from the publication date of the Corporation's Annual Report for 2015 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 2015, which was published on March 31, 2016 (Ref. No. 2016-01-022842) (hereinafter – "the Periodic Report"). Every reference to an Immediate Report includes as part of this document all the information included in the Immediate Report as stated.

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

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

E. Regarding an Immediate Report with reference to sale of potash to customers in India – see the Immediate Report dated July 11, 2016 (Ref. No. 2016-01-079465).

F. Regarding an Immediate Report with reference to a request for certification of a derivative claim – see the Immediate Report dated July 12, 2016 (Ref. No. 2016-01-080233) and an additional request for certification of a derivative claim – see the Immediate Report dated July 21, 2016 (Ref. No. 2016-01-087223).

G. Regarding an Immediate Report with reference to sale of potash in China – see the Immediate Report dated July 26, 2016 (Ref. No. 2016-01-090667).

H. Regarding update of presentation of the financial information – see the Immediate Report dated July 31, 2016 (Ref. No. 2016-01-093247).

For additional details regarding ICL's business developments – see the Report of the Corporation's Board of Directors as at June 30, 2016.

To Section 9 of Paragraph A of the Periodic Report – Oil Refineries Ltd. (hereinafter – "ORL")

In connection with an appeal filed with respect to rejection of a request for a class action claim against the Corporation, ORL and others – see the Corporation's Immediate Report dated April 19, 2016 (Ref. No. 2016-01-052087).

For additional details regarding ORL's business developments – see the Report of the Corporation's Board of Directors as at June 30, 2016.

To Section 10 of Paragraph A of the Periodic Report – Human Resources and to Regulation 26A to Part D of the Periodic Report – Additional Details regarding the Corporation

In connection with appointment of Mr. Shay Ohayon as the Corporation's controller – see the Corporation's Immediate Report regarding its senior officers dated March 31, 2016 (Ref. No. 2016-01-022122).

To Section 12 of Part A of the Periodic Report – Financing

A. On April 18, 2016, an amendment of the loan agreement was signed with a consortium of banks that is referred to Note 17 to the Corporation's financial statements as at December 31, 2015 (which was published on March 31, 2016) (Ref. No. 2016-01-022842). For additional details – see the Corporation's Immediate Report dated April 19, 2016 (Ref. No. 2016-01-051520).

B. On May 5, 2016, the Corporation published a shelf prospectus. (Ref. No. 2016-01-059611).

C. On May 5, 2016, the Corporation gave notice that on May 4, 2016, the Corporation's Board of Directors authorized the Corporation's management to examine the feasibility and the viability of and issuance and registration for trading on the Tel-Aviv Stock Exchange Ltd. of two new series of debentures (Ref. No. 2016-01-059674).

D. On May 5, 2016, a rating report for the Corporation was issued by Maalot in connection with a rating for new debentures that may be issued by the Corporation (Ref. Nos. 2016-01-059875 and 2016-01-059926).

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

To Section 12 of Paragraph D of the Periodic Report – Financing (Cont.)

E. Regarding drafts of trust indentures for the debentures (Series 10 and Series 11) that the Corporation may issue and a brief summary of the terms of the debentures – see the Corporation's Immediate Reports dated May 5, 2016 (Ref. No. 2016-01-059947), May 18, 2016 (Ref. No. 2016-01-028413) and May 19, 2016 (Ref. No. 2016-01-029955).

F. Regarding a presentation to the Corporation's investors – see the Corporation's Immediate Report dated May 8, 2016 (Ref. No. 2016-01-060667).

G. Regarding a shelf offer report – see the Corporation's Immediate Report dated May 25, 2016 (Ref. No. 2016-01-034110).

H. Regarding the results of the tender to institutions – see the Immediate Report dated May 25, 2016 (Ref. No. 2016-01-033135).

I. Regarding the report of Maalot for issuance of debentures – see the Immediate Report dated May 25, 2016 (Ref. No. 2016-01-033222).

J. Regarding the notification of the bidder with respect to the results of the bid in effect – see the Immediate Report dated May 29, 2016 (Ref. No. 2016-01-036456).

K. For annual reports of the trustee for the Corporation's debentures – see the Immediate Reports dated May 30, 2016 (Ref. Nos. 2016-01-038724 and 2016-01-038733).

To Section 16 of Part A of the Periodic Report – Legal Proceedings

For details regarding legal proceedings in which the Corporation is a party – see Note 6 the Corporation's financial statements as at June 30, 2016.

To Section 24 of Part D of the Periodic Report – Details regarding the Corporation.

For details regarding a report by Bank Leumi L'Israel Ltd. ("the Bank") with respect to sale of the balance of its holdings in the Corporation and it no longer being an interested party in the Corporation – see the Corporation's Immediate Reports dated April 24, 2016 (Ref. Nos. 2016-01-054742, 2016-01-054976, 2016-01-054979 and 2016-01-054982, respectively).

To Section 24A of Part D of the Periodic Report – Details regarding the Corporation.

For details regarding changes in the Corporation's liabilities after publication of the Corporation's Periodic Report for 2015 – see the Corporation's Immediate Reports dated April 3, 2016, April 5, 2016, April 13, 2016, May 26, 2016, May 29, 2016 and July 19, 2016 (Ref. Nos. 2016-01-023898, 2016-01-041449, 2016-01-047614, 2016-01-034554, 2016-01-036462 and 2016-01-085357, respectively).

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

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.

The Committee has 4 members: Mr. Oded Degany (external director and Chairman); Mr. Gideon Langholz (external director); Ms. Zehavit Cohen (independent director); and Mr. Dan Suesskind (independent director). Three of the four member of the Committee have accounting and financial expertise. All of the members provided a declaration in accordance with the Companies Regulations (Provisions and Conditions regarding the Approval Process of the Financial Statements), 2010, as required at the time of the appointments. For details regarding the members of the Committee – see Part D to the Periodic Report for 2015.

The Finance and Balance Sheet Committee discussed and formulated its recommendations to the Corporation's Board of Directors at its meeting held on August 15, 2016 wherein Messrs. Oded Degany, Gideon Langholz, Dan Suesskind and Zehavit Cohen participated.

Set forth below is the name and position of each senior officer, interested party, family member of any of these and/or a party on his behalf that was present at the meeting of the Committee: Messrs. Ron Moskovitz, Amnon Lion and Aviad Kaufman and Michael Bricker directors (who participated in the stage of presentation of the matters only); Mr. Avisar Paz, CEO; Mr. Sagi Kabla, CFO; and Ms. Maya Alcheh-Kaplan, EVP, General counsel and company secretary. In addition, representative of the auditing CPAs from the Office of KPMG was present: Messrs. Zion Amsalem, CPA and Yagel Drori, CPA.

Set forth below is detail of the processes employed by the Committee for purposes of formulating it recommendation to the Board of Directors.

As part of the discussions of the Finance and Balance Sheet Committee, on August 15, 2016, the Committee examined the financial statements, by means of a detailed presentation by the Corporation's CEO and CFO, including: (a) estimates and assessments made in connection with the financial statements; (b) the internal controls relating to the financial statements; (c) the completeness and appropriateness of the disclosure in the financial statements; (d) the accounting policies adopted and the accounting treatment applied with respect to the Corporation's significant matters; (e) a detailed review of the Corporation's business results; and (f) a review of the review processes performed by the auditing CPAs. In addition, an in-principle and comprehensive discussion was held of the significant reporting issues.

The Committee's discussions were based on the material presented to its members with respect to the relevant matters by the Corporation's Management and questions and answers that arose and were addressed during the discussions, including reference by the outside auditing CPAs to the said issues. Where necessary, the Balance Sheet Committee requested that comprehensive reviews be presented regarding matters having a significant impact. The Corporation's outside auditing CPAs addressed these issued during the Committee's discussions and presented the main findings that were found during the review process.

The Corporation's Board of Directors believe that the recommendations of the Finance and Balance Sheet Committee, which were provided on August 15, 2016, were provided a reasonable time prior to the meeting of the Board of Directors (which in the opinion of the Board of Directors is usually up to 2 business days prior to the meeting of the Board of Directors), taking into account the extent of the recommendations and their complexity.

After the Board of Directors received the draft of the financial statements and Committee's recommendations a reasonable time in advance, the Board of Directors held a discussion of the recommendations of the Balance Sheet Committee and also received a detailed review and analysis from the Corporation's CEO and CFO of the Corporation's financial statements, its financial results and the significant issues in the financial report relating to the statements.

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

After the Board of Directors was satisfied that the financial statements properly reflect the Corporation's financial position and results of operations, the Corporation's Board of Directors decided on August 17, 2016, to approve the Corporation's financial statements. At the meeting of the Board of Directors during which the financial statements were approved, In the Committee's discussions, the following persons were present: Messrs. Ron Moskovitz, Gideon Langholz, Oded Degany, Zehavit Cohen, Aviad Kaufman Dan Suesskind, Amnon Lion and Michael Bricker.

ADDITIONAL INFORMATION

For data regarding the Corporation's liabilities – see the Immediate Report regarding the position of the liabilities based on repayment dates published by the Corporation on August 17, 2016 (Ref. No. 2016-105646), 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 regarding a direction of attention:

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

That stated in Note 6C(4) regarding certain legal proceedings and other contingencies against ORL and its subsidiaries, which in the estimation of the managements of the defendant companies, based on the opinion of their legal advisors, it is not possible to predict at this point the impact thereof on the financial statements, if any, and accordingly, no provision in respect thereof has been included in the financial statements.

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.

Ron Moskovitz **Chairman of the Board of Directors**	**Avisar Paz** **CEO**

August 17, 2016

Israel Corporation Ltd.

Condensed Consolidated Interim Financial Statements

As at June 30, 2016

(Unaudited)

In Millions of U.S. Dollars

Israel Corporation Ltd.
Condensed Consolidated Interim Financial Statements
At June 30, 2016
Unaudited

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

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

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

We have reviewed the accompanying financial information of Israel Corporation Ltd. and its subsidiaries including the condensed consolidated interim statement of financial position as at June 30, 2016 and the condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the six-month and three-month periods then ended. The Board of Directors and Management are responsible for preparation and presentation of the financial information for this interim period in accordance with IAS 34 "*Financial Reporting for Interim Periods*", and are also responsible for preparation of financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on the interim financial information for this interim period based on our review.

Scope of the Review

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

Conclusion

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

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

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

That stated in Note 6C(4) regarding certain legal proceedings and other contingencies against ORL and its subsidiaries, which in the estimation of the managements of the defendant companies, based on the opinion of their legal advisors, it is not possible to predict at this point the impact thereof on the financial statements, if any, and accordingly, no provision in respect thereof has been included in the financial statements.

Somekh Chaikin
Certified Public Accountants (Isr.)

August 17, 2016

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Financial Position

	At June 30		At December 31
	2016	2015	2015
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Current Assets			
Cash and cash equivalents	**279**	317	537
Short-term investments, deposits and loans	**803**	433	270
Trade receivables	**980**	882	1,082
Other receivables and debit balances, including derivative instruments	**309**	302	267
Income taxes receivable	**39**	203	207
Inventories	**1,361**	1,201	1,364
Total current assets	**3,771**	3,338	3,727
Non-Current Assets			
Investments in associated companies accounted for using the equity method of accounting	**703**	659	667
Financial assets available for sale	**255**	–	–
Loan to related company	**215**	113	118
Derivative instruments	**73**	24	80
Deferred taxes, net	**150**	181	199
Other non-current assets	**298**	137	336
Property, plant and equipment	**4,352**	4,046	4,271
Intangible assets	**1,468**	1,231	1,389
Total non-current assets	**7,514**	6,391	7,060
Total assets	**11,285**	9,729	10,787

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

Israel Corporation Ltd.

Condensed Consolidated Interim Statements of Financial Position

	At June 30		At December 31
	2016	**2015**	**2015**
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Current Liabilities			
Credit from banks and others	**841**	866	981
Trade payables	**753**	572	716
Provisions	**48**	38	42
Other payables and credit balances, including derivative instruments	**698**	679	652
Total current liabilities	**2,340**	2,155	2,391
Non-Current Liabilities			
Debentures and long-term loans	**5,112**	3,951	4,600
Derivative instruments and other non-current liabilities	**50**	9	25
Provisions	**128**	102	127
Deferred taxes, net	**283**	337	371
Long-term provisions for employee benefits	**585**	619	551
Total non-current liabilities	**6,158**	5,018	5,674
Total liabilities	**8,498**	7,173	8,065
Equity			
Share capital and premium	**321**	308	318
Capital reserves	**(137)**	(88)	(135)
Capital reserve in respect of transactions with controlling shareholder	**190**	190	190
Retained earnings	**653**	549	588
Total equity attributable to the owners of the Corporation	**1,027**	959	961
Holders of non-controlling interests	**1,760**	1,597	1,761
Total equity	**2,787**	2,556	2,722
Total liabilities and equity	**11,285**	9,729	10,787

Ron Moskovitz	**Avisar Paz**	**Sagi Kabla**
Chairman of the Board of Directors	**CEO**	**CFO**

Approval date of the financial statements: August 17, 2016

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

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Income

	For the Six Months Ended June 30		For the Three Months Ended June 30		Year Ended December 31
	2016	2015	2016	2015	2015
	(Unaudited)		(Unaudited)		(Audited)
	In Millions of U.S. Dollars				
Sales	**2,642**	2,599	**1,377**	1,196	5,405
Cost of sales	**1,860**	1,826	**960**	862	3,613
Gross profit	**782**	773	**417**	334	1,792
Research and development expenses	**36**	36	**19**	17	74
Selling, transportation and marketing expenses	**334**	306	**179**	136	653
Administrative and general expenses	**165**	163	**83**	80	365
Other expenses	**26**	100	**16**	22	211
Other income	**(36)**	(242)	**(40)**	(25)	(332)
Operating income	**257**	410	**160**	104	821
Financing expenses	**128**	105	**94**	163	277
Financing income	**(12)**	(29)	**(37)**	(114)	(73)
Financing expenses, net	**116**	76	**57**	49	204
Share in income of associated companies accounted for using the equity method of accounting	**51**	72	**37**	45	86
Income before taxes on income	**192**	406	**140**	100	703
Taxes on income (tax benefit)	**23**	(57)	**7**	18	7
Income for the period	**169**	463	**133**	82	696
Attributable to:					
Owners of the Corporation	**90**	314	**81**	43	440
Holders of non-controlling interests	**79**	149	**52**	39	256
Income for the period	**169**	463	**133**	82	696
Income per share attributable to the owners of the Corporation: (in dollars)					
Basic and diluted income per share	**11.79**	41.25	**10.51**	5.79	57.51

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

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Comprehensive Income

	For the Six Months Ended June 30 2016	Six Months Ended June 30 2015	Three Months Ended June 30 2016	Three Months Ended June 30 2015	Year Ended December 31 2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	In Millions of U.S. Dollars				
Income for the period	**169**	463	**133**	82	696
Components of other comprehensive income (loss) that will be recognized in future periods in the statement of income					
Foreign currency translation differences in respect of foreign activities	**–**	(131)	**(48)**	81	(207)
Net change in fair value of cash flow hedges transferred to the statement of income	**(1)**	(4)	**3**	(9)	2
Group's share in other comprehensive income of companies accounted for using the equity method of accounting	**1**	2	**–**	3	2
Effective portion of the change in fair value of cash flow hedges	**(2)**	5	**(5)**	8	(5)
Net change in fair value of financial assets available for sale	**8**	–	**(5)**	–	–
Taxes on income in respect of other components of other comprehensive income	**(2)**	–	**1**	–	–
Total	**4**	(128)	**(54)**	83	(208)
Components of other comprehensive income (loss) that will not be recognized in future periods in the statement of income					
Actuarial gains (losses) from defined benefit plans, net	**(46)**	40	**(27)**	84	63
Taxes on income in respect of other components of other comprehensive income	**9**	(9)	**3**	(20)	(15)
Total	**(37)**	31	**(24)**	64	48
Other comprehensive income (loss) for the period, net of tax	**(33)**	(97)	**(78)**	147	(160)
Comprehensive income for the period	**136**	366	**55**	229	536
Attributable to:					
Owners of the Corporation	**73**	269	**42**	117	366
Holders of rights non-controlling interests	**63**	97	**13**	112	170
Comprehensive income for the period	**136**	366	**55**	229	536

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

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

	Attributable to the owners of the Corporation						Non-controlling interests	Total equity
	Share capital and premium	Translation reserve for foreign activities	Capital reserves	Capital reserve for transactions with controlling shareholder	Retained earnings	Total		
	(Unaudited)							
	$ millions							
For the six months ended June 30, 2016								
Balance at January 1, 2016 (audited)	**318**	**(196)**	**61**	**190**	**588**	**961**	**1,761**	**2,722**
Share-based payments in a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**8**	**8**
Expiration of options granted to Corporation employees	**3**	**–**	**(3)**	**–**	**–**	**–**	**–**	**–**
Share-based payments in the Corporation	**–**	**–**	***–**	**–**	**–**	**–**	**–**	**–**
Dividend to holders of non-controlling interests in a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**(52)**	**(52)**
Non-controlling interests in business combinations from prior periods	**–**	**–**	**–**	**–**	**–**	**–**	**(12)**	**(12)**
Change in equity of investee companies accounted for using the equity method of accounting	**–**	**–**	**–**	**–**	**(7)**	**(7)**	**(8)**	**(15)**
Income for the period	**–**	**–**	**–**	**–**	**90**	**90**	**79**	**169**
Other comprehensive income (loss) for the period, net of tax	**–**	**2**	**(1)**	**–**	**(18)**	**(17)**	**(16)**	**(33)**
Balance at June 30, 2016	**321**	**(194)**	**57**	**190**	**653**	**1,027**	**1,760**	**2,787**
For the six months ended June 30, 2015								
Balance at January 1, 2015 (audited)	308	(70)	45	190	1,360	1,833	1,802	3,635
Share-based payments in a subsidiary	–	–	–	–	–	–	7	7
Share-based payments in the Corporation	–	–	2	–	–	2	–	2
Dividend to holders of non-controlling interests in a subsidiary	–	–	–	–	–	–	(108)	(108)
Dividend to equity holders (see Note 5)	–	–	–	–	(1,150)	(1,150)	–	(1,150)
Loss of control due to split up of holdings (see Note 5)	–	(30)	26	–	4	–	(212)	(212)
Issuance of shares of a subsidiary to holders of non-controlling interests	–	–	–	–	5	5	11	16
Income for the period	–	–	–	–	314	314	149	463
Other comprehensive income (loss) for the period, net of tax	–	(62)	1	–	16	(45)	(52)	(97)
Balance at June 30, 2015	308	(162)	74	190	549	959	1,597	2,556

* Amount less than $1 million.

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

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

	Attributable to the owners of the Corporation						Non-controlling interests	Total equity
	Share capital and premium	Translation reserve for foreign activities	Capital reserves	Capital reserve for transactions with controlling shareholder	Retained earnings	Total		
	(Unaudited)							
	$ millions							
For the three months ended June 30, 2016								
Balance at April 1, 2016 (unaudited)	318	(172)	65	190	584	985	1,774	2,759
Share-based payments in a subsidiary	–	–	–	–	–	–	3	3
Expiration of options granted to Corporation employees	3	–	(3)	–	–	–	–	–
Dividend to holders of non-controlling interests in a subsidiary	–	–	–	–	–	–	(18)	(18)
Non-controlling interests in business combinations from prior periods	–	–	–	–	–	–	(12)	(12)
Income for the period	–	–	–	–	81	81	52	133
Other comprehensive loss for the period, net of tax	–	(22)	(5)	–	(12)	(39)	(39)	(78)
Balance at June 30, 2016	321	(194)	57	190	653	1,027	1,760	2,787
For the three months ended June 30, 2015								
Balance at April 1, 2015 (unaudited)	308	(202)	74	190	466	836	1,547	2,383
Share-based payments in a subsidiary	–	–	–	–	–	–	4	4
Share-based payments in the Corporation	–	–	1	–	–	1	–	1
Dividend to holders of non-controlling interests in a subsidiary	–	–	–	–	–	–	(77)	(77)
Issuance of shares of a subsidiary to holders of non-controlling interests	–	–	–	–	5	5	11	16
Income for the period	–	–	–	–	43	43	39	82
Other comprehensive income (loss) for the period, net of tax	–	40	(1)	–	35	74	73	147
Balance at June 30, 2015	308	(162)	74	190	549	959	1,597	2,556

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

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

	Attributable to the Corporation's shareholders						Non-controlling interests	Total capital
	Share capital and premium	Translation reserve for foreign activities	Capital reserves	Capital reserve for transactions with controlling shareholder	Retained earnings	Total		
	Audited							
	$ millions							
Balance at January 1, 2015	308	(70)	45	190	1,360	1,833	1,802	3,635
Share-based payments in a subsidiary	–	–	–	–	–	–	15	15
Expiration of options granted to employees of the Corporation	10	–	(10)	–	–	–	–	–
Share-based payments in the Corporation	–	–	2	–	–	2	–	2
Dividends to holders of non-controlling interests in a subsidiary	–	–	–	–	–	–	(178)	(178)
Dividends to Corporation shareholders	–	–	–	–	(1,250)	(1,250)	–	(1,250)
Non-controlling interests in respect of business combination	–	–	–	–	7	7	151	158
Issuance of shares of a subsidiary to holders of non-controlling interests	–	–	–	–	3	3	13	16
Loss of control due to split up of holdings	–	(30)	26	–	4	–	(212)	(212)
Income for the year	–	–	–	–	440	440	256	696
Other comprehensive income (loss) for the year, net of tax	–	(96)	(2)	–	24	(74)	(86)	(160)
Balance at December 31, 2015	318	(196)	61	190	588	961	1,761	2,722

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

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Cash Flows

	For the Six Months Ended June 30		For the Three Months Ended June 30		Year Ended December 31
	2016	2015	2016	2015	2015
	(Unaudited)		(Unaudited)		(Audited)
	In Millions of U.S. Dollars				
Cash flows from operating activities					
Income for the period	**169**	463	**133**	82	696
Adjustments:					
Depreciation and amortization	**199**	220	**99**	98	442
Financing expenses, net	**88**	61	**25**	72	140
Share in income of associated companies accounted for using the equity method of accounting	**(51)**	(72)	**(37)**	(45)	(86)
Other capital losses (gains), net	**1**	(7)	**1**	(7)	5
Share-based payment transactions	**8**	9	**3**	5	17
Loss (gain) on sale of subsidiaries	**1**	(223)	**–**	(14)	(215)
Gain from re-measurement to fair value of collar options	**(6)**	(7)	**(13)**	(1)	(82)
Taxes on income (tax benefit)	**23**	(57)	**7**	18	7
	432	387	**218**	208	924
Change in inventories	**–**	120	**57**	38	25
Change in trade and other receivables	**49**	88	**(68)**	185	(82)
Change in trade and other payables	**18**	(47)	**34**	(135)	15
Change in provisions and employee benefits	**37**	(92)	**22**	(22)	(90)
	536	456	**263**	274	792
Income taxes received (paid), net	**162**	40	**173**	72	(33)
Dividends received	**4**	12	**1**	–	19
Net cash provided by operating activities	**702**	508	**437**	346	778
Cash flows from investing activities					
Investments in securities available for sale (see Note 5B(1))	**(250)**	–	**–**	–	–
Short-term deposits and loans, net	**(530)**	350	**(403)**	(49)	514
Business combinations less cash acquired	**–**	(188)	**–**	(96)	(351)
Proceeds from sale of subsidiaries	**17**	372	**–**	31	364
Acquisition of property, plant and equipment and intangible assets	**(341)**	(305)	**(154)**	(155)	(619)
Provision of long-term loans to related company	**(90)**	(110)	**(50)**	(65)	(110)
Interest received	**1**	5	**1**	1	5
Other	**(1)**	1	**3**	–	6
Receipts from (payments for) derivative transactions not used for hedging, net	**25**	(78)	**17**	(7)	(135)
Net cash provided by (used in) investing activities	**(1,169)**	47	**(586)**	(340)	(326)

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

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Cash Flows

	For the				
	Six Months Ended June 30		**Three Months Ended June 30**		**Year Ended December 31**
	2016	**2015**	**2016**	**2015**	**2015**
	(Unaudited)		**(Unaudited)**		**(Audited)**
	In Millions of U.S. Dollars				
Cash flows from financing activities					
Dividend paid to holders of non-controlling interests	**(52)**	(112)	**(52)**	(112)	(178)
Receipt of long-term loans and issuance of debentures	**1,380**	662	**930**	372	1,644
Dividend paid to the owners of the Corporation	**–**	(200)	**–**	–	(300)
Cash of previously consolidated subsidiaries distributed as a dividend in-kind	**–**	(645)	**–**	–	(645)
Repayment of long-term loans and debentures	**(933)**	(1,101)	**(576)**	(535)	(1,495)
Short-term credit from banks and others, net	**(84)**	8	**(91)**	(32)	8
Receipts from (payments for) derivative transactions used for hedging, net	**(1)**	–	**–**	1	(1)
Interest paid	**(100)**	(99)	**(46)**	(51)	(188)
Net cash provided by (used in) financing activities	**210**	(1,487)	**165**	(357)	(1,155)
Increase (decrease) in cash and cash equivalents	**(257)**	(932)	**16**	(351)	(703)
Cash and cash equivalents at beginning of the period	**537**	1,255	**266**	662	1,255
Effect of exchange rate fluctuations on balances of cash and cash equivalents	**(1)**	(6)	**(3)**	6	(15)
Cash and cash equivalents at the end of the period	**279**	317	**279**	317	537

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

Israel Corporation Ltd.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
At June 30, 2016

Note 1 – The Reporting Entity

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

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

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

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

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

Note 2 – Basis of Preparation of the Financial Statements

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

The condensed consolidated interim financial statements were prepared in accordance with IAS 34, "Financial Reporting for Interim Periods" and do not include all of the information required in complete, annual financial statements. These statements should be read together with the financial statements for the year ended December 31, 2015 (hereinafter – "the Annual Financial Statements"). In addition, these financial statements were prepared in accordance with the provisions of Section D of the Securities Regulations (Periodic and Immediate Reports) 1970.

The condensed, consolidated, interim financial statements were approved for publication by the Corporation's Board of Directors on August 17, 2016.

B. Use of estimates and judgment

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

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

Note 3 – Significant Accounting Policies

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

Note 4 – Information on Activity Segments

A. General

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

The Group is composed of the following activity segments:

1) **Israel Chemicals Ltd.** – ICL is a leading multi-national company engaged in the area of specialty minerals that operates a unique, integrated business model. ICL is a global manufacturer of products based on specialty minerals that fulfill humanity's essential needs primarily in three markets: agriculture, food and engineered materials, by utilizing a unique, integrated business model. The agricultural products produced by ICL help to feed the world's growing population. The potash and phosphates that it mines and manufactures are used as ingredients in fertilizers and serve as an essential component in the pharmaceutical and food additives industries. ICL's bromine and phosphorous-based applications allow the safe and widespread use of a variety of products and materials, help to create energy that is more efficient and environmentally friendly and prevent the spread of forest fires. The food additives that ICL produces enable people to have greater access to more varied and higher quality food.

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

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

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

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

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

Note 4 – Information on Activity Segments (Cont.)

B. (Cont.)

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

C. Information relating to Business Segments

	ICL	ORL	Adjustments (1)	Total
	Unaudited			
	$ millions			
For the six months ended June 30, 2016				
Sales to external customers	2,642	2,057	(2,057)	2,642
EBITDA income (2)	501	236	(240)	497
Depreciation and amortization	198	65	(64)	199
Financing income	(12)	(11)	11	(12)
Financing expenses	80	73	(25)	128
Share in income of equity-accounted investees	(9)	–	(42)	(51)
Extraordinary or non-recurring expenses (income) and adjustments	47	(29)	23	41
	304	98	(97)	305
Income before taxes	197	138	(143)	192
Taxes on income	27	23	(27)	23
Income for the period	170	115	(116)	169

(1) Most of the adjustments stem from the ORL segment.
(2) See Section B., above.

Note 4 – Information on Activity Segments (Cont.)

B. Information relating to Business Segments (Cont.)

	ICL	ORL	Adjustments (1)	Total
	Unaudited			
	$ millions			
For the six months ended June 30, 2015				
Sales to external customers	2,599	2,956	(2,956)	2,599
EBITDA income (2)	691	402	(405)	688
Depreciation and amortization	167	65	(56)	176
Financing income	(22)	(20)	13	(29)
Financing expenses	52	98	(45)	105
Share in income of equity-accounted investees	(5)	–	(67)	(72)
Extraordinary or non-recurring expenses and adjustments	102	32	(32)	102
	294	175	(187)	282
Income before taxes	397	227	(218)	406
Taxes on income	105	42	(204)	(57)
Income for the period	292	185	(14)	463

(1) Most of the adjustments stem from the ORL segment.
(2) See Section B., above.

Note 4 – Information on Activity Segments (Cont.)

B. Information relating to Business Segments (Cont.)

	ICL	ORL	Adjustments (1)	Total
	Unaudited			
	$ millions			
For the three months ended June 30, 2016				
Sales to external customers	1,377	1,132	(1,132)	1,377
EBITDA income (2)	278	113	(115)	276
Depreciation and amortization	99	33	(33)	99
Financing income	(17)	10	(30)	(37)
Financing expenses	57	16	21	94
Share in income of equity-accounted investees	(7)	–	(30)	(37)
Extraordinary or non-recurring expenses (income) and adjustments	30	(56)	43	17
	162	3	(29)	136
Income before taxes	116	110	(86)	140
Taxes on income	5	23	(21)	7
Income for the period	111	87	(65)	133

(1) Most of the adjustments stem from the ORL segment, which is an associated company.
(2) See Section B., above.

Note 4 – Information on Activity Segments (Cont.)

B. Information relating to Business Segments (Cont.)

	ICL	ORL	Adjustments (1)	Total
	Unaudited			
	$ millions			
For the three months ended June 30, 2015				
Sales to external customers	1,196	1,524	(1,524)	1,196
EBITDA income (2)	337	187	(189)	335
Depreciation and amortization	87	33	(32)	88
Financing income	(67)	(7)	(40)	(114)
Financing expenses	81	50	32	163
Share in income of equity-accounted investees	(6)	–	(39)	(45)
Extraordinary or non-recurring expenses (income) and adjustments	143	(28)	28	143
	238	48	(51)	235
Income before taxes	99	139	(138)	100
Taxes on income	24	23	(29)	18
Income for the period	75	116	(109)	82

(1) Most of the adjustments stem from the ORL segment, which is an associated company.
(2) See Section B., above.

Note 4 – Information on Activity Segments (Cont.)

B. Information relating to Business Segments (Cont.)

	ICL	ORL	Adjustments (1)	Total
	(Audited)			
	$ millions			
2015				
Sales to external customers	5,405	5,491	(5,491)	5,405
EBITDA for the year (2)	1,361	677	(692)	1,346
Depreciation and amortization	353	145	(134)	364
Financing income	(52)	(6)	(15)	(73)
Financing expenses	160	146	(29)	277
Share in income of associated companies	(11)	(1)	(74)	(86)
Extraordinary or non-recurring expenses and adjustments	243	129	(211)	161
	693	413	(463)	643
Income before taxes	668	264	(229)	703
Taxes on income	162	39	(194)	7
Income for the year	506	225	(35)	696
Other significant non-cash items:				
Decline in value of fixed and intangible assets	75	9	–	84
Segment assets	8,917	3,495	(2,292)	10,120
Investments in associated companies	159	5	503	667
				10,787
Segment liabilities	5,889	2,628	(452)	8,065
Capital expenses	1,270	96	(96)	1,270

(1) Most of the adjustments stem from the ORL segment, which is an associated company.
(2) See Section B., above.

Note 5 – Additional Information

A. The Corporation

1. Further to that stated in Note 13 to the annual financial statements, on April 6, 2016, the Corporation provided Kenon an additional amount of $50 million. After provision of the additional amount, the actual amount of the loan principal provided to Kenon is $200 million and, thus, Kenon has utilized the full amount of the credit framework provided to Kenon by the Corporation. Pursuant to the loan agreement, Kenon placed a lien in favor of the Corporation on 66% of the issued share capital of I.C. Power – its wholly-owned subsidiary.

   On March 20, 2016, the Corporation gave notice of a change in the lien it was provided for securing the loan granted to Kenon, due to a reorganization of the holdings of Kenon in its wholly-owned subsidiary, I.C. Power. For additional details in connection with the terms of the credit framework, the loans granted, the liens and the change in the lien – see Note 13 to the annual financial statements.

2. Further to that stated in Note 17C(1) to the annual financial statements, on March 29, 2016, the Corporation and the headquarters companies signed a credit agreement with Bank B, which is referred to in the above-mentioned Note, whereby additional shares of ICL were pledged, at the rate of 2.3% of ICL's share capital, and shares of ORL, at the rate of 10% of ORL's share capital.

   As a result of the undertaking in this credit agreement, the loan principal was set at $250 million (instead of $200 million) and the following main changes were recorded: in a case where the price of an ICL share drops below $2.4 (2.89 per share as at December 31, 2015), without consent of the lender under any of the relevant agreements having been received, as applicable, this will constitute grounds for calling the credit for immediate repayment. In addition, in a case where the price of an ORL share drops below $0.23, and upon the existence of certain conditions, shares of ORL will not be considered as security for the loan. Furthermore, certain restrictions were provided with respect to the number of ORL shares that serve as collateral and, the headquarters companies committed not to place a lien on additional shares of ICL they hold.

3. Further to that stated in Note 17C(1) to the annual financial statements, on March 29, 2016, an amendment was made to the credit agreement with Bank A, which is referred to in the above-mentioned Note, whereby the financial covenant was removed from the credit agreement and it was provided that in a case where the ratio of the Corporation's net financial debt to the total assets, as defined in the amendment, exceeds 60%, the ratios provided in the agreement between the value of the collaterals provided by the Corporation and the balance of the loan will increase.

Note 5 – Additional Information (Cont.)

A. The Corporation (Cont.)

4. Further to that stated in Note 17C(1) to the annual financial statements, on April 18, 2016, an amendment was made to the loan agreement with the consortium of three banks, which is referred to in the above-mentioned Note (hereinafter – "the Amendment"). As part of the Amendment, among other things, the Corporation's commitment to comply with a financial covenant was removed and it was provided that in a case where the ratio of the Corporation's net financial debt to the total assets (as these terms are defined below) exceeds 60%, the ratios provided in the agreement between the value of the collaterals provided by the Corporation and the balance of the loan will increase.

   "Total Assets" – as part of the Amendment, there is an addition to the total assets (in addition to the market value of the shares of ICL and the shares of ORL (where a ceiling of $0.34804 was provided for a share of ORL) as noted in Note 17C(1) to the annual financial statements) of 75% of the loan amounts (as they are defined in the Amendment), which the Corporation provided to Kenon, as stated in Note 13 to the annual financial statements, and the amount of the tax refund (as defined in the Amendment), in connection with the distribution transaction, as stated in Note 31I to the annual financial statements. It is noted that in the case of a revision of the loan to Kenon without the consent of the lenders, the lenders will be permitted to demand that the amounts of the Kenon loan, as stated, will no longer be included in the total assets.

   In addition, as part of the Amendment, additional grounds were added upon the existence of which the lenders will be permitted to demand repayment of the loan (pursuant to and subject to the terms of the agreement), including a decline in the price of an ICL share below $2.35 and increase of the total net financial debt (as defined in the Amendment) above the amount provided in the agreement. Furthermore, it was provided that making of a distribution, as defined in the Amendment, will be subject to certain conditions, in a format similar to the trust indentures of the Corporation's debentures.

5. On January 4, 2016, the plenary Knesset passed the Law for Amendment of the Income Tax Ordinance No. 216 which provides, inter alia, for a reduction of the Companies Tax rate commencing from 2016 and thereafter by the rate of 1.5% such that the rate will be 25%. The impact of the change included in the first quarter on the statement of income is income of about $9 million.

6. On April 24, 2016, Bank Leumi L'Israel gave notice that it sold all of its holdings in the Corporation – 451,252 shares, constituting about 5.86% of the Corporation's issued shares. As of the above-mentioned date, Bank Leumi L'Israel Ltd. ceased to be an interested party in the Corporation.

Note 5 – Additional Information (Cont.)

A. The Corporation (Cont.)

7. On May 5, 2016, the Corporation published a shelf prospectus (within the meaning thereof in Section 23A of the Israeli Securities Law, 1968) based on the financial statements as at December 31, 2015. On May 26, 2016, the Corporation completed, as part of the shelf prospectus, issuance of two new series of registered debentures of NIS 1 par value each: Series 10 – an unlinked shekel series with a total par value of NIS 675 million and Series 11 – a dollar-linked series with a total par value of NIS 511 million. The proceeds of the issuance, net of the fundraising expenses, amounted to about $174 million and about $132 million, respectively.

   The debentures were registered for trading on the Tel-Aviv Stock Exchange. Standard & Poor's Maalot gave notice of provision of a rating of ilA+ for the above-mentioned debentures (the Corporation is rated ilA+/Negative).

   The debentures (Series 10) and debentures (Series 11) are repayable in 6 unequal annual payments, which are to be made on May 31, 2019 through 2024, where in each the first and second payments 10% of the principal will be repaid, in the third payment 15% of the principal will be repaid, in each the fourth and fifth payments 20% of the principal will be repaid, and in the sixth payment 25% of the principal will be repaid.

   The debentures (Series 10) bear fixed interest at the annual rate of 3.85% and are not linked to the CPI. The debentures (Series 11) bear fixed interest at the annual rate of 5% and they are linked to the dollar. The interest on the outstanding balance of the principal of the debenture series is to be paid in bi-annual payments on November 30 and May 31, where the first interest payment on the debenture series is to be made on November 30, 2016, and the final payment is to be made, together with the final principal payment, on May 31, 2024.

   In June 2016, the Corporation entered into a SWAP transaction, for exchange of part of the principal and interest of Series 10, in order to reduce the currency and interest exposure. In respect of this transaction, the Corporation decided to apply the rules applicable to hedges of cash flows, as described in Note 3C(3) to the annual financial statements.

   The debentures (Series 10) and debentures (Series 11) are unsecured and include standard terms and conditions and events of default as are customary in a case of insolvency, as well as a mechanism to raise the interest rate in the event of a decrease of the rating of the debentures (the interest rate will be increased by 0.25% per decrease in the rating of the debentures by one rating level, starting from a rating of ilA and reaching a maximum cumulative interest rate addition of 1% upon reaching a rating of ilBBB), a negative pledge not to place a lien on more than 500 million shares of ICL under certain conditions, financial covenants, conditions for distribution of dividends and additional conditions as appearing in the trust certificates.

Note 5 – Additional Information (Cont.)

A. The Corporation (Cont.)

7. (Cont.)

   Set forth below are the financial covenants:

   The Corporation's minimum shareholders' equity shall not drop below $360 million.

   The ratio of the Corporation's shareholders' equity to its total assets in accordance with its separate-company (solo) statement of financial position less solo liquid assets (cash and short-term deposits) plus the net financial liabilities of the headquarters companies shall not drop below 20%.

8. Further to that stated in Note 5 and 31I to the annual financial statements, during the quarter the Corporation received the tax refunds as a result of a chain of dividends from an Approved Enterprise as part of the split-up transaction.

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

1. On January 16, 2016, ICL completed its investment in 15% of the issued and outstanding share capital, on a fully diluted basis, of Yunnan Phosphate Chemicals Group Corporation Ltd. (hereinafter – "YTH") by means of payment of about $250 million based on the agreed share price of CNY 8.24 which was determined in December 2014. The share price on the closing date was CNY 9.10 per share. The newly-issued shares will be subject to a three-year lock-up period as required under the PRC (China) law. This investment is classified as a "financial asset available-for-sale", and is measured at fair value, which includes a discount rate in light of the above-mentioned lock-up period. In subsequent periods, fair value updates of the investment, other than impairment losses, will be recognized directly in other comprehensive income and will be presented in the equity section in a reserve for financial assets available-for-sale.

   Measurement of the fair value of the discount rate in respect of the lock-up period was calculated using the Finnerty 2012 Model and, as at January 31, 2016 this rate was about 15.7%. Pursuant to the Model, the discount rate was estimated based on an assessment of the period in which the restriction on marketability applies and on the standard deviation of the yield per share of YTH in this period. The impact deriving from a possible and reasonable change in these data items, which is not observable, is not material. As at June 30, 2016, the net change in the other comprehensive income amounted to about $6 million.

2. In March 2016, ICL entered into a revolving credit facility agreement with Bank of America in the amount of $150 million, on the following terms:

   a. The loan agreement is for a term of five full years from the signing date of the credit facility.

   b. The loan agreement does not include an undertaking for minimum use of the credit facility. A non-utilization fee will be at the rate of 0.19% per year.

Note 5 – Additional Information (Cont.)

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

2. (Cont.)

c. Annual interest will apply to the amount of the loan actually used, scaled to the amount of the credit facility actually used, as follows:

– Up to 33% use of the credit:	Libor + 0.65%.
– From 33% to 66% use of the credit:	Libor + 0.75% (on the entire sum used).
– 66% or more use of the credit:	Libor + 0.95% (on the entire sum used).

d. Under the loan agreement, ICL undertook restrictions that include financial covenants (which are identical to the financial covenants applicable to ICL's prior loans), a cross-default mechanism and a negative pledge.

As at the signing date of the report, $90 million of the credit facility had been utilized.

3. In April 2016, ICL entered into a revolving credit facility (renewed once a year) with the Bank of Tokyo Mitsubishi UFJ in the amount of RMB 400 million (approximately $60 million), on the following terms:

a. The loan agreement is for a term of one full year from the signing date of the credit facility, and may be renewed on a yearly basis.

b. The loan agreement does not include an undertaking for minimum use of the credit facility. A non-utilization fee will be at the rate of 0.15% per year.

c. Annual interest will apply to the amount of the loan actually used at a rate of HCN HIBOR + 0.5%.

d. Under the loan agreement, ICL undertook restrictions that include financial covenants (which are identical to the financial covenants applicable to ICLs prior loans), a cross-default mechanism and a negative pledge.

As at the signing date of the report, the credit facility had been fully utilized.

4. In April 2016, ICL completed issuance of a new series of debentures (Series E) (hereinafter – "the Debentures"). The Debentures were listed for trading on the Tel-Aviv Stock Exchange. The aggregate principal amount of the Debentures of about NIS 1.57 billion (about $408 million) is to be repaid in four equal annual payments on March 30 of each of the years 2021 through 2024 (each payment will constitute 25% of the nominal value of the principal). The Debentures bear interest at the annual interest rate of 2.45%, and the interest is to be paid bi-annually on the outstanding balance of the principal amount on March 30 and September 30 of each of the years between 2016 and 2024 (inclusive), so that the first interest payment will be made on September 30, 2016, and the final interest payment will be made on March 30, 2024.

The net proceeds received by ICL for the Debentures are about NIS 1.54 billion (about $404 million) with a yearly effective interest rate of 2.61%.

Note 5 – Additional Information (Cont.)

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

4. (Cont.)

The Debentures are unsecured and contain standard terms and conditions and events of default, as well as a mechanism to raise the interest rate in the event of a decrease in the rating of the Debentures (the interest rate will be increased by 0.25% per decrease in the rating by one rating level, starting at a rating of (ilA) and reaching a maximum cumulative interest rate addition of 1% upon reaching a rating of (ilBBB)), a negative pledge undertaking and financial covenants ((1) minimum equity of not less than $1.55 billion; and (2) net debt to EBITDA ratio of not more than 1:5.5).

Standard & Poor's Maalot rated the Debentures "ilAA". Most of the proceeds were used to repay part of the revolving credit facility agreement.

5. Further to ICL's efficiency plan, in the first quarter of 2016, ICL signed early retirement agreements with a number of employees in the Industrial Products business unit. As a result, ICL recorded an additional provision for severance pay, in the amount of about $6 million.

6. On May 16, 2016 and May 17, 2016, ICL's Human Resources and Compensation Committee and Board of Directors, respectively, approved the grant of up to 3.9 million non-marketable and non-transferrable options, for no consideration, exercisable for up to 3.9 million of ICL's ordinary shares, and up to 1.52 million restricted shares, to approximately 90 of ICL's officers and senior employees. Subject to approval of the General Meeting of ICL's shareholders, which is to be held on August 29, 2016, the said grant includes a significant private placement of 186,335 options and 55,215 restricted shares to the incoming Chairman of ICL's Board of Directors, subject to his appointment by the General Meeting of ICL's shareholders, and of 625,466 options and 185,337 restricted shares to ICL's Chief Executive Officer.

The options and restricted shares will vest in three equal tranches over a period of three years: one-third at the end of 12 months after the grant date, one-third at the end of 24 months after the grant date and one-third at the end of 36 months after the grant date. The options will expire at the end of seven years from the grant date. The grant date, other than with respect to the incoming Chairman of the Board and ICL's CEO, is June 30, 2016.

Each option may be exercised for one ordinary share of NIS 1 par value of ICL.

The total fair value of all the options was estimated through application of the Black and Scholes model for pricing options.

Note 5 – Additional Information (Cont.)

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

4. (Cont.)

	June 2016 Options Grant
Share price (in $)	3.88
CPI-linked exercise price (in $)	4.43
Expected volatility	30.6%
Expected life of options (in years)	7
Risk-free interest rate	(0.03%)
Total fair value (in $ millions)	4
Dividend – exercise price	Reduced on the "ex-dividend" date by the amount of the dividend per share

The expected volatility was determined based on the historical volatility of the price of ICL's shares. The expected life of the options was determined in accordance with Management's estimation and past experience in connection with employee turnover.

The risk-free interest rate was determined based on the yield to maturity on index-linked government bonds, where their remaining period is equal to the expected life span of the options.

The total fair value of the above-mentioned restricted shares is approximately $6 million. The value of the restricted shares offered to the offerees was determined according to the closing price on the Tel-Aviv Stock Exchange on the grant date (approximately NIS 14.92 / $3.88).

The cost of the embedded benefit of the said plans will be recognized in the income statement over the vesting period of each tranche.

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

As at June 30, 2016, ORL and its subsidiaries, Carmel Olefins and Gadiv, are in compliance with the financial covenants provided for them in connection with their liabilities.

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

Note 5 – Additional Information (Cont.)

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

Condensed data regarding associated company – ORL

Condensed data regarding the interim statement of position:

	June 30 2016	June 30 2015	December 31 2015
	(Unaudited)	(Unaudited)	(Audited)
		$ millions	
Main location of activities		ISRAEL	
Rate of ownership rights		37.08%	
Current assets	**1,257**	1,424	1,144
Non-current assets	**2,368**	2,409	2,356
Current liabilities	**(1,033)**	(1,558)	(1,032)
Non-current liabilities	**(1,604)**	(1,443)	(1,594)
Total net assets (100%)	**988**	832	874

Condensed data regarding the interim statement of income:

	For the six months ended June 30 2016	For the six months ended June 30 2015	For the three months ended June 30 2016	For the three months ended June 30 2015	For the year ended December 31 2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
			$ millions		
Revenues	**2,057**	2,956	**1,132**	1,524	5,491
Income (loss)	**115**	185	**87**	116	225
Other comprehensive income (loss)	**(1)**	(8)	**(3)**	6	(7)
Total comprehensive income (loss)	**114**	177	**84**	122	218

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

Further to that stated in Note 22 to the annual financial statements and except as stated below, there were no significant changes in the period of the report in the contingent liabilities, commitments and concessions.

A. The Corporation

1. On October 16, 2013, V-Cars filed a monetary claim in the District Court in Tel-Aviv (essentially identical to the claim filed in the United States against the Corporation that was rejected) against the Corporation. On dates from February 28, 2016 through March 2, 2016, four consecutive days of proof hearings were held at the conclusion of which the case was set for written summations. The Corporation estimates, based on the opinion of its legal advisors, that the chances that the Corporation will be required to pay the plaintiff a significant amount is remote.

2. On August 29, 2013, a request for certification of a claim as a class action against ICL, the Corporation, Potashcorp Cooperative Agricultural Society Ltd., the members of ICL's Board of Directors and its CEO, was filed in the District Court in Tel-Aviv, on the grounds of a misleading detail, deception and non-disclosure of a material detail in ICL's reports, this being in violation of the provisions of the Securities Law and the general laws. At this stage, the Corporation is awaiting issuance of a decision on the request for certification of the claim as a class action. In the opinion of the Corporation's management, based on the position of its legal advisors, it appears that the chances that contentions of the requesting party will be rejected are higher than the chances that they will be accepted.

3. On January 16, 2014, a shareholder of ORL filed a claim and a request for its certification as a class action against ORL, the Corporation and others. As part of the claim, the plaintiff contends that ORL provided, as it were, deficient and misleading reports to the investing public regarding significant and extraordinary undertakings, as it were, of ORL with parties that provided it financial credit. The damage claimed to the group the plaintiff seeks to represent is, so it is alleged in the request for certification of the claim as a class action, about NIS 135 million. On March 10, 2016, the Court rejected the request for certification. The Court found that even though ORL breached its duty to report when it did not timely report the transactions for acquisition of raw materials from its suppliers and the transaction for availability of the inventory, ORL fulfilled the said reporting obligations in the Immediate Report it published on May 6, 2012. Since the said Immediate Report included a rating report of the Maalot rating company ("the Maalot Report"), the Immediate Report was published prior to publication of ORL's financial statements for the second quarter of 2012 (which were published on August 13, 2012) and the damage claimed was caused, so the requesting party alleges, only after publication the financial statements for the second quarter of 2012, there is no causative link between breach of the said duty of disclosure and the damage claimed. The Court held that in light of ORL's breach of its duty to disclose, and even though there was no causative link between breach and the damage claimed by the requesting party, the requesting party is to be awarded the expenses of making the request, in the aggregate amount of NIS 250,000. On April 18, 2016, the requesting party filed an appeal of the decision in the Supreme Court, wherein it contends that the District Court should have accepted the request for certification.

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

A. The Corporation (Cont.)

3. (Cont.)

In this respect, the requesting party contends, among other things, that the Maalot Report is not a report of ORL and, therefore, the said report does not end the “misleading” period and does not constitute full and proper disclosure by ORL of the transactions; in the Maalot Report there are no significant details of the transactions that are needed by “the reasonable investor” and the Maalot Report even misleads “the reasonable investor”; ORL’s reports even after the Maalot Report are deficient and misleading and it cannot be discerned from them the essence and scope of the transactions and that ORL’s financial debt did not decline; ORL’s misleading also caused damage up to publication of the Maalot Report; in any event, at the stage of certification of the class action quantification of the damage is not to be deliberated; and the Court erred when it did determine that the “inventory availability” transaction is an inventory-secured loan transaction.

On June 19, 2016, ORL, the Corporation and others filed in the Supreme Court a counter-appeal to the Court decision. According to the Order for Appeal Summations, the requesting party is required to submit his summations no later than November 17, 2016, the respondents are required to submit their summations no later than January 9, 2017 and the main appellant is permitted to submit response summations no later than January 30, 2017. An Order for Appeal Summations has not yet been issued with respect to the counter-appeal. A hearing for oral supplementation of contentions on the appeal and the counter-appeal has been scheduled for February 27, 2017.

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

4. On August 5, 2014, a request was filed in the District Court in Tel-Aviv–Jaffa (the Economics Division) for certification of a claim as a derivative claim (hereinafter – “the Request for Certification”), by a Corporation shareholder that allegedly holds 19 of the Corporation’s shares (hereinafter – “the Requesting Party”) against the Corporation, ZIM, Messrs. Gideon Langholz, Oded Degany, Zehavit Cohen and Michael Bricker (who serve as Corporation directors) and against Millennium Investments Elad Ltd. (hereinafter – “Millennium”) and Mr. Idan Ofer (hereinafter – “the Respondents”). A copy of the statement of claim is attached to the Request for Certification. In brief, the Requesting Party contends that the Corporation’s undertaking and its execution of an interested party transaction as part of ZIM’s debt arrangement were made in violation of an authorization and contrary to the approval of the General Meeting of the Corporation’s shareholders, and also that the precondition for the Corporation’s undertaking in this transaction was not fulfilled. On March 19, 2015, the Requesting Party filed the summations on its behalf. On June 22, 2015 and June 24, 2015, all the respondents filed their summations. On July 7, 2015, the Requesting Party filed the response summations on its behalf. A decision has not yet been rendered on the request for certification of the claim as a derivative claim.

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

A. The Corporation (Cont.)

4. (Cont.)

On June 26, 2016, a Court decision was rendered whereby the Request for Certification was rejected. In the Court decision, it was determined that, among other things, notwithstanding the general corporate governance harm the Court found in the work of the Special Committee for examination of ZIM's debt arrangement and the Court's determination that the precondition relating to transfer of ZIM's shares was not fulfilled, there is no place for the Corporation filing a claim against its officers, who acted for its benefit, and there is not causal connection regarding the damage claimed by the Requesting Party. In addition, the Court charged the Corporation for expenses in favor of the Requesting Party, in the amount NIS 250 thousand, this being due to the fact that the Court found that the claim was proper to have been filed, even though it ultimately decided to reject it.

5. On December 31, 2014, a request for certification of a claim as a derivative claim was filed in the District Court of Tel-Aviv–Jaffa (Economic Division) ("the Request for Certification"), by two shareholders who allegedly hold together 42 of the Corporation's shares (hereinafter – "the Plaintiffs"), against the Corporation, Messrs. Gideon Langholz, Oded Degany, Zehavit Cohen and Michael Bricker (who serve as Corporation directors) (hereinafter – "the Directors") and against Trigger Foresight (a limited partner) (hereinafter – "Trigger Foresight"). A copy of the statement of claim is attached to the Request for Certification. On December 10, 2015, a preliminary hearing was on the request for the approval and thereafter the case was set for hearings of the proofs on June 1, 2016 and on June 9, 2016. The Plaintiffs filed a request with the Court for discovery of documents. On May 15, 2016, the Court's decision was received wherein it determined that there is no place for hearing the request for discovery of documents prior to hearing the Request for Certification. On June 13, 2016, the Plaintiffs filed a request for leave to appeal in connection with the Court's decision to reject the request for discovery of documents (hereinafter – "the Request for Leave to Appeal"). Subsequent to the date of the report, on July 13, 2016, a decision was rendered by the Supreme Court regarding the Request for Leave to Appeal whereby, among other things, the Corporation, the Directors and Trigger Foresight to respond to the Request for Leave to Appeal no later than August 13, 2016, and it also gave a recommendation of the Court that the parties should consider the possibility of discovery and perusal of documents in a smaller scope than requested in the Request for Leave to Appeal, solely as required for purposes of the hearing on the Request for Leave to Appeal, while reserving the rights to a later stage, to the extent the request for the approval is accepted. Subsequent to the date of the report, on August 9, 2016, a notice and request was filed on behalf of the Plaintiffs and Trigger Foresight whereby they have reached agreements with each other. The date for filing the response on behalf of the Corporation was set for September 4, 2016.

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

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

A. The Corporation (Cont.)

6. On January 15, 2015, a request was filed on behalf of Mr. Mordochai Gavrielli (hereinafter – "the Plaintiff"), as part of a proceeding for certification of a claim as a class action, in the amount of NIS 32.3 million (hereinafter – "the Request"), against the Corporation (Claim No. 30751") and, based on that alleged in the Request, against the members of the Corporation's Board of Directors, the Corporation's CEO on the relevant dates, the Corporation's CFO on the relevant dates (hereinafter – "the Officers") and the Corporation's controlling shareholder (hereinafter jointly and severally – "the Respondents"). The Plaintiff held 5 of the Corporation's shares between the dates October 14, 2014 through December 3, 2014. As part of an Immediate Report of the Corporation dated December 31, 2014, a notification was provided whereby there was a clerical error in the Report of the Board of Directors as at September 30, 2014, which was published on November 25, 2014 (hereinafter – "the Report of the Board of Directors").

   Pursuant to that alleged in the Request, the clerical error is a "significant error in description of the financial position of the subsidiary", and this error caused the Plaintiff and additional shareholders, who bought and sold their shares during the period between November 25, 2014 (prior to the start of trading) through December 31, 2014 (after the close of trading) (hereinafter – "the Alleged Misleading Period"), to sustain significant harm. On January 5, 2016, a preliminary hearing on the claim was held. On May 17, 2016, a pre-trial hearing was held on the claim. On May 17, 2016, a court hearing was held whereat the Plaintiff was questioned (with respect to his affidavit), the expert on his behalf (with respect to his opinion) and a declarant on behalf of the Corporation with respect to its affidavit. The Court issued an Order for summations on the Request in such a manner that the Plaintiff must submit his summations within 60 days and thereafter the respondents will have 60 days to submit their summations. In the estimation of the Corporation's management, it is not possible to assess the probability that the District Court will reject the Request or will approve it (and will certify the claim as a class action).

7. On July 9, 2015, a request for certification of a claim as a derivative claim (hereinafter – "the Request for Certification") was filed in the District Court in Tel-Aviv–Jaffa (Economics Division) by Ms. Yehudit Langa, who alleges to hold shares of the Corporation (hereinafter – "the Claimant"), against the Corporation, against Mr. Idan Ofer and Millennium Investments Elad Ltd. (hereinafter, both together – "the Controlling Shareholders"), and against the Corporation's form CEO and 3 additional officers (hereinafter – "the Officers"). A copy of the statement of claim was attached to the Request for Certification. In brief, the Claimant contends, among other things, that payment of the bonuses from the controlling shareholders (or entities related to them) to the officers in respect of completion of the transaction for distribution of the shares of Kenon (the subject of the Corporation's report dated December 23, 2014) (hereinafter – "the Bonuses" and "the Distribution Transaction", respectively), is invalid, was made by distorting and circumventing the decisions made by the Corporation, and is contrary to the Corporation's remuneration policy and the provisions of law that address remuneration of officers. It is further contended that payment of the Bonuses placed the officers in a conflict of interests situation in connection with the Distribution Transaction in which the controlling shareholders had a personal interest.

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

A. The Corporation (Cont.)

7. (Cont.).

On May 4, 2016, a pre-trial hearing was held relating to the request for discovery. On the same date, and further to the said hearing, the Court issued a decision whereby it accepted the request for discovery in such a manner that the Corporation will deliver to the Claimant's representative, within 20 days of the date of the said decision, and subject to the Claimant's commitment to keep the documents confidential and not to make any use thereof except for the purposes of the Request for Certification and the claim that will be filed if the Request for Certification is approved and copies of certain documents. In addition, the Corporation was charged for the Claimant's expenses, in the amount of NIS 2,000. Pursuant to the decision of the Honorable Court, dated May 4, 2016, the Corporation provided for the Claimant's perusal and the perusal of the Honorable Court, copies of the requested documents. On July 12, 2016, a request was filed on behalf of the Claimant for discovery of documents (hereinafter – "the Second Request for Discovery"). As part of the Second Request for Discovery, the Claimant requested that it be provided for its perusal the full versions of 10 protocols of meetings of the Board of Directors and its committees, out of a total of 13 protocols that were provided for its perusal on May 24, 2016. Pursuant to the decisions of the Honorable Court, dated July 12, 2016 and July 27, 2016, the Corporation submitted its response to the Second Request for Discovery on August 14, 2016. A hearing on the proofs has been scheduled for September 19, 2016.

At this initial and preliminary stage of the proceeding, it is difficult to estimate its chances and risks. In any event, as usual, a derivative claim (even if it is approved as a derivative claim), does not create actual monetary exposure for the Corporation itself (indeed this is the rationale forming the basis for a claim of this type), and this is true, we believe, in the present case as well.

8. In September 2013, the District Court in Lod issued a fixed liquidation order against Better Place, which is incorporated in Delaware in the United States, in which the Corporation holds about 30% of its shares. This liquidation order was recognized during October 2013 by the competent court in Delaware. As far as we know, a liquidation order has also been issued against subsidiaries of Better Place. In March 2014, the Corporation submitted to the Liquidator of Better Place a debt claim in the amount of about $72 million in respect of its investment in subordinated convertible notes issued by Better Place in November 2012 and February 2013. On September 2, 2014, the decision of the liquidators of Better Place was received whereby the debt claim submitted by the Corporation is rejected. No appeal of the decision on the debt was filed. Former officers of the Corporation have been summoned for investigation by the liquidator of Better Place. Further that stated above, on May 23, 2016, a claim was filed in the Central District Court of Lod by the liquidator of Better Place, in the amount of NIS 200 million, against, among others, a number of position holders in Better Place, including 3 former officers of the Corporation, in connection with their service in Better Place and actions or omissions of the defendants at the time of the liquidation. To the best of its knowledge, the Corporation is not one of the defendants. On June 27, 2016, a decision was rendered by the Honorable Court whereby the defendants are to submit statements of defense on their behalf no later than December 1, 2016.

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

B. ICL

1. Further to the detail in Note 22D(7) to the annual financial statements, in June 2016, ICL received a tax assessment from the Ethiopian tax authority, in the amount of about $55 million, which is comprised of issues related to prior periods preceding the acquisition of Allana Canada and tax claims deriving from the acquisition of Allana Canada. ICL submitted an appeal to the review committee of the Ethiopian tax authority objecting to most of the said claims. Based on ICL estimate, a provision was recorded as part of the acquisition cost. During the ongoing discussions with the government of Ethiopia about the terms of the mining agreement, it was agreed that certain conditions will need to be fulfilled and/or agreed upon, such as, transfer of the mining license to a newly established company subject to a clearance from the Ethiopian tax authority and other regulatory approvals, extension of the development period and a commitment of the Government of Ethiopia to develop infrastructures, including, water, electricity and roads.

2. During the first half of 2016, a claim was filed by several plaintiffs in the United States District Court for the District of Columbia, against a large number of defendants, including ICL, alleging, among others, aggravated trespass and pillage. In August 2016, the plaintiffs removed ICL from the list of defendants.

3. Dispute with Haifa Chemicals – in April 2016, the District Court decided to send back to the arbitration proceedings, the claim of ICL Dead Sea Works Ltd. (DSW) that the Examiner's decisions deviate from the arbitration decision. In June 2016, the Examiner decided that the cap price for the potash based on DSW's costs (the Certified Price) for the years 2012 and 2013, will be $171 per ton and $158 per ton, respectively. ICL estimates, based on its claims included as part of the legal proceedings and their chances of being accepted, and assuming DSW's production costs as they were determined in the Examiner's decision, as stated, that ICL will not bear significant costs and will not receive significant amounts in respect of the prior periods. As at June 30, 2016, ICL believes that the provision in its books is sufficient.

4. DSW Collective agreement – In April 2016, an agreement was signed extending the validity of the collective agreement between DSW and the DSW Employees Committee, whereby DSW committed to pay the employees a one-time grant (in installments) of approximately $30 million, which includes, among other things, payment of a bonus in respect of 2015, in consideration of the Employees Committee's commitment that there will be "industrial peace" until September 30, 2017. In a case of violation of the agreement, the payments not yet made will be cancelled. In the second quarter of 2016, the Company recorded a provision, in the amount of about $17 million. The remaining obligation, of about $4 million, will be recognized subject to fulfillment of all the required conditions.

5. In the second quarter of 2016, based on the filing alternatives for income tax reports in certain tax jurisdictions, ICL decided to file separate (non-consolidated) income tax reports for certain subsidiaries. As a result, ICL updated its liabilities for deferred taxes and recorded tax income, in the amount of about $27 million.

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

B. ICL (Cont.)

6. In April 2016, the tax court in Belgium rejected the petition filed by ICL's subsidiary with respect to the deductibility of certain expenses in prior periods. Given the Court’s decision, in its financial statements for the first quarter of 2016, ICL recognized a tax expense, in the amount of about $13 million, which was recorded in the “income taxes” category in the statement of income. In the second quarter of 2016, ICL filed an appeal of the Court’s decision. A hearing of the matter has been scheduled for September 2016.

C. ORL

1. Further to that stated in Note 22B(3)(g) to the annual financial statements, on March 28, 2016, Carmel Olefins received an administrative order following the hearing and is negotiating with the Ministry of Environmental Protection in this respect. Carmel Olefins has executed the initial stages of the plan for reduction of emissions pursuant to that stipulated in the administrative order and has reached the targets set for it for these stages. ORL believes that the provisions for fugitive emissions that will apply to Carmel Olefins in this regard at the end of the process, will allow Carmel Olefins to continue to operate normally and will require it to make investments in Carmel Olefins that are distributed over time to reduce the fugitive emissions, in amounts that are not significantly different than the recent investments in this area.

2. Further to that stated in Note 22B(3)(d) to the annual financial statements, on April 19, 2016, ORL received an appeal against the judgment dismissing the motion for certification as a class action. ORL believes, based on the opinion of its legal counsel, that it is more likely than not that the appeal will be dismissed. On June 19, 2016, ORL and the other defendants in the case filed a counter-appeal with respect to the judgment rendered by the District Court. ORL has insurance cover for its liability under this claim.

3. During the period of the report and thereafter, emissions permits were received from the Ministry of Environmental Protection for Carmel Olefins, Gadiv and Haifa Basic Chemicals, which will apply for a period of seven years, up to 2023. ORL and its subsidiaries are studying the details of the emissions permits published and are examining the actions required as a result of their publication, including the required investments in the facilities of ORL and its subsidiaries in order to comply with the provisions of these permits, and the extent thereof.

4. As detailed in Note 22B(3)(a), (b), (c) and (f) to the annual financial statements, legal, administrative and other proceedings are being carried on against the ORL Group regarding environmental protection. In the estimation of ORL’s management, based on an opinion of its legal advisors and the legal advisors of ORL’s subsidiaries, at this stage, it is not possible to estimate the impact of that stated above, if any, on the financial statements as at June 30, 2016 and, accordingly, no provisions in respect thereof have been included in the financial statements.

Note 7 – Financial Instruments

Fair value

(1) Fair value compared with book value

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

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

	As at					
	June 30, 2016		June 30, 2015		December 31, 2015	
	Book value	Market value	Book value	Market value	Book value	Market value
	Unaudited		Unaudited		Audited	
			Millions of dollars			
Non-convertible debentures	**2,700**	**2,796**	1,922	2,028	2,087	2,148
Loans from banks and others	**1,250**	**1,282**	1,084	1,126	1,292	1,318

(2) Hierarchy of fair value

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

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

Note 7 – Financial Instruments (Cont.)

(2) Hierarchy of fair value (Cont.)

	June 30 2016	June 30 2015	December 31 2015
	(Unaudited)	(Unaudited)	(Audited)
		Book Value	
		$ millions	
Assets			
Marketable securities held for trade (1)	**25**	27	26
Assets available for sale* (3)	**255**	–	–
Derivatives used for accounting hedge (2)	**6**	15	6
Derivatives used for economic hedge (2)	**14**	47	25
Derivatives used for economic hedge (2)	**89**	3	81
	389	92	138
Liabilities			
Derivatives used for accounting hedge (2)	**2**	–	–
Derivatives used for economic hedge (2)	**4**	46	54
	66	46	54

(1) Level 1.
(2) Level 2.
(3) Level 3.
* See Note 5B(1) above

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

The following table presents a reconciliation between the opening balance and the closing balance with respect to financial instruments measured at fair value at Level 3 in the fair value hierarchy:

	For the Six Months Ended June 30		Three Months Ended June 30		Year Ended December 31
	2016	2015	2016	2015	2015
	Unaudited		Unaudited		Audited
	Millions of dollars				
Opening balance	**81**	(8)	**75**	(1)	(8)
Settlement in respect of dividend adjustment component	**2**	4	**1**	3	7
Total gains (losses) recognized in the statement of income:					
Realized	**(2)**	(4)	**(1)**	(3)	(7)
Unrealized	**8**	11	**14**	4	89
Closing balance	**89**	3	**89**	3	81

Note 7 – Financial Instruments (Cont.)

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

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

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

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

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

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

Level 3

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

	Change in income (loss) and equity			
	$ millions	$ millions	$ millions	$ millions
	Rise of 100 base points	Rise of 50 base points	Fall of 50 base points	Fall of 100 base points
Change in interest rate as at June 30, 2016*	**(4)**	**(2)**	**2**	**4**
Change in interest rate as at June 30, 2015*	(5)	(2)	2	5
Change in interest rate as at December 31, 2015*	(4)	(2)	2	5

* Based on a risk free interest curve.

Note 7 – Financial Instruments (Cont.)

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

Level 3 (Cont.)

	Change in income (loss) and equity			
	$ millions	**$ millions**	**$ millions**	**$ millions**
	Increase of 10%	**Increase of 5%**	**Decrease of 5%**	**Decrease of 10%**
Change in the fluctuations of the price of an ICL share as at June 30, 2016**	**3**	**1**	**(1)**	**(2)**
Change in the fluctuations of the price of an ICL share as at June 30, 2015**	(2)	(1)	1	1
Change in the fluctuations of the price of an ICL share as at December 31, 2015**	3	2	(3)	(4)

** As at June 30, 2016 and 2015 and as at December 31, 2015, the standard deviation was about 33.32%, 26.88% and 29.92%, respectively.

Israel Corporation Ltd.

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

As at June 30, 2016

(Unaudited)

Israel Corporation Ltd.
Condensed Separate Information provided in
accordance with Regulation 38D of the Securities Regulations
(Periodic and Immediate Reports), 1970
As at June 30, 2016
Unaudited

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

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

To the Shareholders of Israel Corporation Ltd.

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

Introduction

We have reviewed the separate-company interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970, of Israel Corporation Ltd. (hereinafter – "the Corporation") as at June 30, 2016 and for the six-month and the three-month periods then ended. The separate-company interim financial information is the responsibility of the Corporation's Board of Directors and Management. Our responsibility is to express a conclusion on the separate-company interim financial information based on our review.

Scope of the Review

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

Conclusion

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

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

That stated in Note 6C(4) to the Corporation's consolidated financial statements regarding certain legal proceedings and other contingencies against ORL and its subsidiaries, which in the estimation of the managements of the defendant companies, based on the opinion of their legal advisors, it is not possible to predict at this point the impact thereof on the financial statements, if any, and accordingly, no provision in respect thereof has been included in the financial statements.

Somekh Chaikin
Certified Public Accountants (Isr.)

August 17, 2016

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at June 30, 2016
Condensed Interim Statements of Financial Position Information

	At June 30		At December 31
	2016	**2015**	**2015**
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Current Assets			
Cash and cash equivalents	**116**	71	370
Short-term deposits	**693**	347	128
Other receivables and debit balances	**1**	–	–
Derivative instruments	**23**	26	23
Income tax receivable	**–**	162	155
Total current assets	**833**	606	676
Non-Current Assets			
Investments in investee companies	**1,895**	1,910	1,849
Loans to wholly-owned subsidiaries	**115**	108	185
Loan to related company	**215**	113	118
Derivative instruments	**73**	23	80
Total non-current assets	**2,298**	2,154	2,232
Total assets	**3,131**	2,760	2,908

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at June 30, 2016
Condensed Interim Statements of Financial Position Information

	At June 30		At December 31
	2016	2015	2015
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Current Liabilities			
Current maturities in respect of non-current liabilities	**346**	307	308
Other payables and credit balances	**66**	18	20
Derivative instruments	**10**	10	12
Total current liabilities	**422**	335	340
Non-Current Liabilities			
Debentures and long-term loans	**1,675**	1,462	1,595
Derivative instruments	**5**	2	12
Long-term balances	**2**	–	–
Deferred taxes, net	**–**	2	–
Total non-current liabilities	**1,682**	1,466	1,607
Total liabilities	**2,104**	1,801	1,947
Equity			
Share capital and premium	**321**	308	318
Capital reserves	**(137)**	(88)	(135)
Capital reserve for transactions with controlling shareholder	**190**	190	190
Retained earnings	**653**	549	588
Total equity attributable to the owners of the Corporation	**1,027**	959	961
Total liabilities and equity	**3,131**	2,760	2,908

Ron Moskovitz	**Avisar Paz**	**Sagi Kabla**
Chairman of the Board of Directors	**CEO**	**CFO**

Approval date of the financial statements: August 17, 2016

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at June 30, 2016
Condensed Interim Statements of Income Information

	For the Six Months Ended June 30		For the Three Months Ended June 30		Year Ended December 31
	2016	**2015**	**2016**	**2015**	**2015**
	(Unaudited)		(Unaudited)		(Audited)
	In Millions of U.S. Dollars				
Administrative and general expenses	**(4)**	(6)	**(2)**	(2)	(9)
Other income	**6**	7	**13**	1	82
Operating income (loss)	**2**	1	**11**	(1)	73
Financing expenses	**(52)**	(67)	**(33)**	(34)	(107)
Financing income	**13**	27	**20**	4	23
Financing expenses, net	**(39)**	(40)	**(13)**	(30)	(84)
Share in income of investee companies, net	**125**	193	**86**	68	299
Income before taxes on income	**88**	154	**84**	37	288
Taxes on income (tax benefit)	**(2)**	(160)	**3**	(6)	(152)
Income for the period attributable to the owners of the Corporation	**90**	314	**81**	43	440

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at June 30, 2016
Condensed Interim Statements of Comprehensive Income Information

	For the				
	Six Months Ended June 30		Three Months Ended June 30		Year Ended December 31
	2016	2015	2016	2015	2015
	(Unaudited)		(Unaudited)		(Audited)
	In Millions of U.S. Dollars				
Income for the period attributable to the owners of the Corporation	**90**	314	**81**	43	440
Components of other comprehensive income (loss) that will be recognized in future periods in the statement of income					
Effective portion of the change in fair value of cash flow hedges	**(2)**	7	**(5)**	10	(3)
Net change in fair value of cash flow hedges transferred to the statement of income	**(1)**	(4)	**3**	(9)	2
Other comprehensive income (loss) in respect of investee companies, net	**3**	(63)	**(25)**	41	(50)
Total	**–**	(60)	**(27)**	42	(51)
Components of other comprehensive income (loss) that will not be recognized in future periods in the statement of income					
Other comprehensive income (loss) in respect of investee companies, net	**(17)**	15	**(12)**	32	(23)
Total	**(17)**	15	**(12)**	32	(23)
Other comprehensive income (loss) for the period, net of tax	**(17)**	(45)	**(39)**	74	(74)
Total comprehensive income for the period attributable to the owners of the Corporation	**73**	269	**42**	117	366

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at June 30, 2016
Condensed Interim Statements of Cash Flows Information

	For the				
	Six Months Ended June 30		Three Months Ended June 30		Year Ended December 31
	2016	2015	2016	2015	2015
	(Unaudited)		(Unaudited)		(Audited)
	In Millions of U.S. Dollars				
Cash flows from operating activities					
Income for the period attributable to the owners of the Corporation	**90**	314	**81**	43	440
Adjustments:					
Financing expenses, net	**39**	40	**13**	30	84
Share in income of investee companies, net	**(125)**	(193)	**(86)**	(68)	(299)
Share-based payment transactions	**–**	2	**–**	1	2
Gain on re-measurement to fair value of collar options	**(6)**	(7)	**(13)**	(1)	(82)
Taxes on income (tax benefit)	**(2)**	(160)	**3**	(6)	(152)
	(4)	(4)	**(2)**	(1)	(7)
Change in receivables	**(2)**	(6)	**(2)**	(1)	(11)
Change in payables	**2**	–	**1**	–	–
	(4)	(10)	**(3)**	(2)	(18)
Income tax received (paid), net	**208**	(10)	**183**	(10)	(13)
Dividends received	**49**	93	**47**	81	154
Net cash provided by operating activities	**253**	73	**227**	69	123
Cash flows from investing activities					
Investments in investee and other companies	**–**	(128)	**–**	(94)	(111)
Short-term deposits and loans, net	**(563)**	315	**(395)**	(102)	531
Provision of long-term loan to related company	**(90)**	(110)	**(50)**	(65)	(110)
Collection of long-term loans from investee companies	**78**	–	**–**	–	–
Interest received	**1**	4	**1**	1	4
Receipts (payments) in respect of settlement of hedging derivatives, net	**3**	3	**(2)**	(6)	(2)
Net cash provided by (used in) investing activities	**(571)**	84	**(446)**	(266)	312

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at June 30, 2016
Condensed Interim Statements of Cash Flows Information

	For the				
	Six Months Ended June 30		Three Months Ended June 30		Year Ended December 31
	2016	2015	2016	2015	2015
	(Unaudited)		(Unaudited)		(Audited)
	In Millions of U.S. Dollars				
Cash flows from financing activities					
Dividends paid	**–**	(200)	**–**	–	(300)
Receipt of long-term loans and issuance of debentures	**305**	–	**305**	–	394
Repayment of long-term loans and debentures	**(200)**	(303)	**(93)**	(199)	(534)
Interest paid	**(40)**	(50)	**(9)**	(19)	(89)
Receipt (payment) for settlement of derivatives used for hedging	**(1)**	–	**–**	1	(1)
Net cash provided by (used in) financing financing activities	**64**	(553)	**203**	(217)	(530)
Net decrease in cash and cash equivalents	**(254)**	(396)	**(16)**	(414)	(95)
Cash and cash equivalents at the beginning of the period	**370**	464	**132**	480	464
Effect of exchange rate fluctuations on balances of cash and cash equivalents	**–**	3	**–**	5	1
Cash and cash equivalents at the end of the period	**116**	71	**116**	71	370

Additional Information

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, 2015 and for the year then ended and together with the condensed consolidated financial statements as at December 31, 2015 and as at June 30, 2016.

In this separate-company interim financial information:

A. The Corporation – Israel Corporation Ltd.

B. Subsidiaries – Companies the financial statements of which are fully consolidated, directly or indirectly, with those of the Corporation.

C. Investee companies – Companies where the Corporation's investment therein is included, directly or indirectly, in the financial statements using the equity basis of accounting.

Additional Information

A. Subsequent to the date of the report, on August 9, 2016, the Board of Directors of ICL decided to distribute a dividend, in the amount of about $60 million, about $0.05 per share (the share of the Corporation's and the headquarters companies – about $29 million). The dividend will be distributed on September 27, 2016, where the effective date for eligibility to the dividend is September 13, 2016.

B. On May 17, 2016, the Board of Directors of ICL decided to distribute a dividend, in the amount of about $35 million, about $0.03 per share (the share of the Corporation's and the headquarters companies – about $17 million). The dividend was distributed on June 22, 2016, where the effective date for eligibility to the dividend was June 7, 2016.

C. As at June 30, 2016, the balance of the Corporation's cash collaterals was about $55 million.

D. During the period, wholly-owned subsidiaries repaid capital notes, in the amount of about $78 million.

Israel Corporation Ltd.

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

As at June 30, 2016

(Unaudited)

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

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

For this purpose, the members of management are:

Avisar Paz, CEO;

Sagi Kabla, CFO

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

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

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

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

In the Annual Report regarding the effectiveness of the internal control over the financial reporting and the disclosure, which was attached to the Periodic Report for the period ended December 31, 2015 (hereinafter – "the Latest Annual Report regarding the Internal Control"), the Board of Directors and Management evaluated the Corporation's internal control; based on this evaluation, the Corporation's Board of Directors and Management reached the conclusion that the internal control as stated, as at December 31, 2015, is effective.

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

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

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

Management Representation

Declaration of the CEO

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

I, Avisar Paz, declare that:

(1) I have examined the interim financial statements of Israel Corporation Ltd. (hereinafter – "the Corporation") as at June 30, 2016 (hereinafter – "the Statements").

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

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

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

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

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

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

(a) Have determined controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, which are designed to ensure that significant information relating to the Corporation, including its subsidiaries as defined in the Securities Regulations (Preparation of Annual Financial Statements), 2010, to the extent it is relevant to the financial statements and the other information presented in the Statements is brought to my attention by others in the Corporation and the subsidiaries, particularly during the period of preparation of the Statements; and –

(b) Have determined controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, which are designed to reasonably ensure the reliability of the financial report and preparation of the financial statements in accordance with the provisions of law, including in accordance with generally accepted accounting principles (GAAP);

(c) No event or matter that occurred during the period between the date of the latest Periodic Report and the date of this report was brought to my attention that is sufficient to change the conclusions of the Board of Directors and Management regarding the effectiveness of the internal control over the Corporation's financial reporting and disclosure.

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

August 17, 2016

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Avisar Paz, CEO

Management Representation

Declaration of the most Senior Officer in the Finance Area

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

I, Sagi Kabla, declare that:

(1) I have examined the interim financial statements and the other financial information included in in the statements for interim periods of Israel Corporation Ltd. (hereinafter – "the Corporation") as at June 30, 2016 (hereinafter – "the Statements").

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

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

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

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

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

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

(a) Have determined controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, which are designed to ensure that significant information relating to the Corporation, including its subsidiaries as defined in the Securities Regulations (Annual Financial Statements), 2010, to the extent it is relevant to the financial statements and the other information presented in the Statements is brought to my attention by others in the Corporation and the subsidiaries, particularly during the period of preparation of the Statements; and –

(b) Have determined controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, which are designed to reasonably ensure the reliability of the financial report and preparation of the financial statements in accordance with the provisions of law, including in accordance with generally accepted accounting principles (GAAP);

(c) No event or matter that occurred during the period between the date of the latest Periodic Report and the date of this report was brought to my attention that is sufficient to change the conclusions of the Board of Directors and Management regarding the effectiveness of the internal control over the Corporation's financial reporting and disclosure.

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

August 17, 2016

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Sagi Kabla, CFO