Israel Corporation Ltd.

2008 Annual Report

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This Report does not constitute a Periodic Report
in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970

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Israel Corporation Ltd.
Report of the Corporation's Board of Directors

For the Year Ended December 31, 2008

Description of the Corporation and its Business Environment

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

The Corporation is held at the rate of 55% by the Ofer Group and 18% by Bank Leumi Le-Israel Ltd.

The Corporation is involved in management of the Group companies, particularly those of its investees in which it holds a high ownership percentage.

The Corporation operates through an array of investee companies mainly in the chemicals, shipping, energy, transportation and advanced technology sectors. The Corporation's headquarters provides management services, through a wholly controlled subsidiary, and is also actively involved in the strategic planning and business development of the investee companies. In addition, the Group endeavors to establish and develop additional businesses.

The Corporation's strategy is designed to adapt its business structure to the business situation existing in Israel and globally, while endeavoring to expand the Group's geographic dispersion and international market penetration into additional areas of activity in growing markets.

This Directors' Report is submitted as part of the periodic report for 2008 and under the assumption that the reader also has the other sections of the said periodic report.

The financial data, including the comparative figures, are prepared in accordance with International Financial Reporting Standards (IFRS).

Financial Position

– The total assets, as at December 31, 2008, amounted to about $14,706 million, compared with about $13,596 million, as at December 31, 2007.

– The working capital as at December 31, 2008 amounted to about $2,069 million, compared with about $1,806 million as at December 31, 2007.

– The balance of the non-current assets as at December 31, 2008, amounted to about $9,004 million, compared with about $8,280 million as at December 31, 2007.

– The non-current liabilities as at December 31, 2008 amounted to about $7,417 million, compared with about $6,702 million as at December 31, 2007.

– The total sales for the year ended December 31, 2008 amounted to about $19,802 million, compared with about $10,910 million for the year ended December 31, 2007.

– In 2007, the balance sheets of Oil Refineries Ltd. and Inkia Energy Ltd. were consolidated, commencing from the third quarter of the year.

– The capital attributable to the holders of the Corporation's equity rights as at as at December 31, 2008 amounted to about $1,627 million, compared with about $1,477 million as at December 31, 2007.

Changes in the Investment Portfolio

A. Agreement with Israel Petrochemical Enterprises Ltd. regarding Joint Control over Oil Refineries Ltd:

1. On August 3, 2008, the Corporation signed an additional letter of undertaking, regarding the signing of an agreement for joint control over ORL, in favor of Israel Petrochemical Enterprises (hereinafter – "Petrochemical") and Petroleum Capital Holdings Ltd. (hereinafter – "Petroleum", Petrochemical and Petroleum jointly – "the Petroleum Group"), 100% of whose issued shares are held by Petrochemical (hereinafter – "the Third Letter of Undertaking"). The Third Letter of Undertaking replaced the Corporation's previous letters of undertaking, dated May 10, 2007 and June 1, 2008, regarding the signing of an agreement for joint control over ORL, which were cancelled, and to which were attached two draft agreements for joint control over ORL, which will become valid subject to the conditions detailed below.

2. The Third Letter of Undertaking was signed following the agreement dated June 24, 2008, between Petrochemical and ORL (hereinafter – "the COL Agreement"), according to which, among other things, subject to the existence of certain conditions stated in the COL Agreement, Petrochemical would sell and transfer to ORL all its shares in Carmel Olefins Ltd. (hereinafter – "COL"), which constitute 50% of COL's issued share capital, in exchange for an issuance of ORL shares, constituting at that time 20.53% of ORL's issued share capital (hereinafter – "the Share Issuance"). The Third Letter of Undertaking and the attached draft agreements govern the joining of the Petrochemical Group to the control over ORL, upon fulfillment of certain conditions and according to various alternatives, prior to and after the closing of the COL Agreement, and in the event that the COL Agreement is cancelled by both parties or terminated due to non-compliance with the terms for its entry into effect, or due to its breach by one or both of the parties, while the parties do not have any claims for its enforcement (each of the above – "Annulment of the COL Agreement").

3. The Corporation and the Petrochemical Group have mutually undertaken that in the event that the COL Agreement is executed according to its terms, and the Petrochemical Group receives all the approvals required by law to enter into the joint agreement of control over ORL (including control according to the Government Companies Order (Declaration of Vital State Interests in Oil Refineries Ltd.), 2007) (hereinafter – "the Required Authorizations"), up to and not later than five years commencing from one day prior to the date of the Share Issuance (hereinafter – "the Five-Year Period"), then an agreement for joint control over ORL will be signed between the parties (hereinafter – "the Control Agreement After Execution of the COL Agreement") according to the draft attached to the Third Letter of Undertaking, and whose principles are similar to the agreements previously formulated between the parties, as follows:

   3.1 The definition of core control shares in ORL: the core control shares in ORL will comprise 50.25% of the issued and paid-up share capital of ORL after the Share Issuance. The Corporation will hold 55% of the core control shares in ORL, while the Petrochemical Group will hold 45% of the core control shares in ORL. The remaining shares held by the parties will be considered free shares, except regarding their voting power that will be subject to the provisions applicable to the voting of the core control shares.

   3.2 Freeze Period: the agreement establishes a freeze period of six months, commencing from the signing date of the control agreement (hereinafter – "The Freeze Period"), during which the core control shares may not be transferred by either of the parties.

Changes in the Investment Portfolio (Cont.)

A. Agreement with Israel Petrochemical Enterprises Ltd. regarding Joint Control over Oil Refineries Ltd: (Cont.)

3. (Cont.)

3.3 Right of First Refusal: the parties will have a Right of First Refusal to purchase and to receive the transfer of all the core control shares offered for sale by the other party (hereinafter – "the Right of First Refusal"). It is hereby clarified that a party to the control agreement will be permitted to sell and/or transfer all, but not part of, the core control shares it holds at that time. The Right of First Refusal will also apply, with certain changes, in the case where a lien on the core control shares (if such a lien exists) is realized by the holder of the lien on these shares. It was agreed, as part of the Right of First Refusal that a change in the control of Petrochemical or of the Corporation, as defined in the draft agreement and subject to the existence of certain conditions stated in the draft agreement, will confer on the other party the right to purchase the core control shares in ORL of the party in which a change in control was made, at the average market price in the 60 business days prior to the notification regarding the change in control, and with an added premium of 15%. The said right will inure to the Corporation in a case of the transfer of the direct control in Petrochemical, or a change is made in the direct or indirect holdings of the controlling shareholders in Petrochemical, in such a way that David Federman and/or his kin, on the one hand, and Yaakov Gottenstein and/or Alex Pesel, on the other hand, will cease being the holders of the direct or indirect controlling interest in Petrochemical, provided that the core control shares in ORL constitute the main assets of Petrochemical, that is, Petrochemical has no other assets (except for the core control shares, cash and cash equivalents), the value of which according to Petrochemical's last financial reports exceeds US$200 million.

3.4 Right to Join: each party will have the right to join a sale of core control shares of the other party, provided that the Right of First Refusal has not been exercised (hereinafter – "the Right to Join").

3.5 Buy Me – Buy You Mechanism: at the end of the Freeze Period, each party to the agreement will have the right to exercise a buy me – buy you mechanism regarding the core control shares, whereby it may offer the other party to purchase all the core control shares held by the other party at a price stated in the proposal, or to sell to the other party all the core control shares it holds at the above stated price (hereinafter – "the Buy Me – Buy You Mechanism").

3.6 Appointment of Directors: the parties to the control agreement will undertake, as part of the agreement, to use all their voting power at ORL's General Meetings, to select or appoint the members of ORL's Board of Directors, in the following manner: ORL's Board of Directors will comprise of 11 members (including 2 external directors), while the Corporation will recommend the appointment of 5 directors and the appointment of one external director, and Petrochemical Group will recommend the appointment of 4 directors and the appointment of one external director (hereinafter – "the Right for Full Representation on the Board of Directors"). It was determined, among other things, that the right of representation of the Corporation and the Petrochemical Group on ORL's Board of Directors, as stated above, will also relate to all committees of ORL's Board of Directors, excluding the Audit Committee and, to the extent possible, also to the Boards of Directors of all ORL's subsidiaries and associated companies.

Changes in the Investment Portfolio (Cont.)

A. Agreement with Israel Petrochemical Enterprises Ltd. regarding Joint Control over Oil Refineries Ltd: (Cont.)

3. (Cont.)

3.7 Appointment of Executives and Advisors: subject to the provisions of law, the parties, in their capacity as shareholders in ORL, will act so that the appointment of ORL's CEO, the accountants, auditors and attorneys of ORL, ORL's subsidiaries and to the extent possible, of ORL's associated companies, will be made with agreement of the parties (hereinafter – "the Right to Participate in Appointment of Executives"). In addition, subject to the provisions of law, appointment of the Chairman of ORL's Board of Directors will be made based on the Corporation's recommendation.

3.8 Voting on Specific Issues: the parties will agree in advance on the manner of voting on several issues, if and to the extent they are placed on the day's agenda and are brought for decision at the General Meetings of ORL's shareholders, and in the absence of agreement the vote will be decided by an agreed-to arbitrator. It was also determined that the parties will act in order to amend ORL's Articles of Association so that decisions on those matters that are within the authority of ORL's Board of Directors will be transferred for the decision of the General Meeting of ORL's shareholders or that a decision in respect thereof will require a special majority of 75% of all present directors. Following is a list of these issues: (a) the entry of ORL or of any of its subsidiaries into new business areas; (b) the issuance of shares or other securities by ORL or by its subsidiary; (c) a change in the Articles of Association of ORL and/or of any of its subsidiaries and/or of any of its investee companies; (d) the merging or split-up or reorganization of ORL or of any of its subsidiaries; (e) transactions not in the ordinary course of ORL's business or of any of its subsidiaries or of any of its investee companies with an interested party; (f) the appointment of ORL's auditors; (g) dissolution or freezing of legal proceedings in ORL or in any of its subsidiaries and/or in any of its investee companies; and (h) a material sale or purchase transaction of ORL.

3.9 Dividend Policy: the parties to the control agreement will act subject to any applicable law, so that ORL and its subsidiaries will adopt a dividend policy, according to which at least 75% of the annual distributable income will be distributed every year.

3.10 Agreement Period: the control agreement will become valid opon its signing and will end (a) according to its terms, or (b) from the time that one party ceases to hold at least 10% of ORL's share capital.

3.11 Additional Provisions: the agreement includes additional provisions customary in these types of agreements, including confidentiality, remedies, non-waiver of rights, arbitration, jurisdiction, etc.

4. So long as the COL Agreement has not been implemented, the Corporation and the Petrochemical Group have mutually undertaken that if all required approvals are received up to and not later than May 10, 2009 (hereinafter – "the Determining Date"), then at the request of the Petrochemical Group an agreement for joint control over ORL will be signed between the parties (hereinafter – "the Agreement for Control Prior to Execution of the COL Agreement"), according to the draft attached to the Third Letter of Undertaking, the control agreement of which is similar to the Agreement for Control After Execution of the COL Agreement, subject to the following changes:

Changes in the Investment Portfolio (Cont.)

A. Agreement with Israel Petrochemical Enterprises Ltd. regarding Joint Control over Oil Refineries Ltd: (Cont.)

4. (Cont.)

4.1 The Call Option: Petroleum shall be given a call option to purchase and receive from the Company 230 million shares of ORL (hereinafter – "the Realization Shares"), where the price of the Realization Shares is the cost price of purchasing the core control shares purchased in the sale tender from the State of Israel on February 19, 2007, i.e., the amount of NIS 3.3 per share and a total of NIS 759 million, plus CPI linkage differences and interest at the annual rate of 5% and charged semi-annually from the acquisition date and after deduction of dividends distributed plus CPI linkage differences and interest as stated (hereinafter – "the Call Option"). The Call Option will be frozen so long as the COL Agreement has not been executed, and will be cancelled *ab initio* upon execution of the COL Agreement. The Call Option may be exercised by Petroleum, if at all, only from the date the COL Agreement is cancelled and up to the earlier of the Determining Date or up to 120 days from receiving the required authorizations.

4.2 So long as the Call Option has not been exercised: (a) the Petrochemical Group will not be entitled to the Right of First Refusal; (b) the Corporation will not be entitled to the Right to Join; (c) the Buy Me – Buy You Mechanism will not apply; (d) the Right for Full Representation on the Board of Directors will not apply – instead, ORL's Board of Directors will consist of 9 members (including 2 external directors), while the Company will recommend the appointment of 5 directors, Petroleum will recommend the appointment of 2 directors and the recommendation regarding the appointment of the two external directors will be made in agreement between the parties; and (e) the Right to Participate in the Appointment of Executives will not apply. It is clarified that the rights specified above will become valid at the time of the exercise of the Call Option, if and when it is exercised, or when the Control Agreement After Execution of the COL Agreement is signed.

4.3 On the date that the COL Agreement is realized and the Control Agreement After Execution of the COL Agreement is signed, it will replace and annul the Control Agreement Prior to Execution of the COL Agreement, if and when signed and, among other things, the Call Option will be void *ab initio*.

5. Should annulment of the COL Agreement occur prior to the Determining Date for reasons not connected to an act, omission or activity of Petrochemical, and the Agreement for Control Prior to Execution of the COL Agreement has not yet been signed, then in such a case, and notwithstanding that stated in Section 1 above, the Corporation's Letter of Undertaking dated June 1, 2008 will be reinstated and will be effective together with the attached draft agreement of joint control over ORL (hereinafter – "the Second Letter of Undertaking"), and the Third Letter of Undertaking and the attached draft agreements will be considered null and void. According to the Second Letter of Undertaking, the Petrochemical Group is entitled, among other things, to transfer its rights according to the Second Letter of Undertaking to a third party which has obtained the required approvals up to the Determining Date, subject to the Corporation's Right of First Refusal.

Changes in the Investment Portfolio (Cont.)

A. Agreement with Israel Petrochemical Enterprises Ltd. regarding Joint Control over Oil Refineries Ltd: (Cont.)

6. On the signing date of the Third Letter of Undertaking, Petroleum signed an irrevocable letter of authorization (hereinafter – "the Letter of Authorization") that authorizes the Corporation to vote on its behalf at ORL's General Meetings for its holding of 235 million ORL shares (hereinafter – "the Authorization Shares"). The Letter of Authorization will become valid one day prior to the date of the Share Issuance and will be valid until earlier of the time of signing the Control Agreement After Execution of the COL Agreement or until the end of the Five-Year Period (hereinafter – "the Intermediate Period"). During the Intermediate Period Petroleum will not sell the Authorization Shares unless at the time of their sale the Petrochemical Group has given the Corporation an additional letter of authorization pertaining to the number of ORL shares that is identical to the number of shares to be sold, as stated, and in such a case the Letter of Authorization covering the shares sold will be void. In case the Authorization Shares are pledged as a security in favor of third parties that have provided credit to Petrochemical or Petroleum, the Letter of Authorization will be subject to the rights of the holder of the pledge, and in the case of realization of the pledge and the sale of the Authorization Shares to an unrelated third party (subject to the Corporation's Right of First Refusal), the Letter of Authorization will become void, and the Petroleum Group will issue an additional Letter of Authorization to the Corporation covering an identical number of shares as the sold shares.

7. According to the provisions of the Third Letter of Undertaking, the Corporation will be entitled to the Right of First Refusal even prior to the signing of an agreement of joint control over ORL. Until the signing of the control agreement, the Corporation will be entitled to use its control power in ORL based on its discretion and without any limitations deriving from its shares in ORL, and during the Intermediate Period – also under the Letter of Authorization.

8. ORL is conducting negotiations with IPE for purposes of changing certain details in the COL merger transaction and in accordance therewith discussions are being held between the Corporation and IPE in connection with making revisions to the Third Letter of Undertaking

B. In August and October 2007, the Corporation's Board of Directors approved participation in a venture for operation of electric-powered vehicles in the amount of $100 million, which will be concentrated, among other things, in the first stage, in establishment of a charging network for electric-powered vehicles (out of the amount of $200 million to be invested in the venture in the first stage by various investors), in exchange for about 33.33% of the rights in the vehicle venture. In January 2008, agreements were signed relating to the investment in the venture between the Corporation, additional investors and the initiator. During the period of the report, the amount of about $23 million was transferred to Better Place.

Subsequent to the balance sheet date, on January 20, 2009, an additional amount of $20 million was transferred to Better Place. The Corporation's Board of Directors decided to continue investing additional amounts in Better Place up to an investment by the Corporation of $100 million, subject to a work plan and milestones.

C. In January 2008, a company in the ICL Group acquired the main assets and activities of a business unit of the German Henkel Group, in the area of water treatment for a cash price of €60 million (about $85 million) subject to adjustments.

D. Regarding the investment in ZIM – see the Section on ZIM.

E. Regarding the investment in Tower – see the Section on Tower.

Results of Operations

The Corporation finished the current year with income allocable to the holders of its equity rights of $320 million, compared with income of $113 million last year.

Set forth below are the factors which impacted the results of operations for the year of the report:

– Israel Chemicals Ltd. (hereinafter – "ICL") finished the current year with income of about $2,004 million compared with income of about $553 million last year.

– Oil Refineries Ltd. (hereinafter – "ORL") – finished the current year with a loss of about $109 million. In 2007, the Corporation included its share in the results of ORL commencing from the third quarter of the year.

– ZIM Integrated Shipping Services Ltd. (hereinafter – "ZIM") finished the current year with a loss of about $332 million compared with income of about $23 million last year. In the fourth quarter of the year, ZIM recorded a provision for decline in value of property, plant and equipment, in the amount of about $95 million.

– Inkia Energy Ltd. (hereinafter – "Inkia") finished the year with a loss of about $5.7 million, and after eliminating the financing expenses to Israel Corporation the income for the year amounted to $6.1 million. In 2007, the Corporation included the results of Inkia commencing from the third quarter of the year.

– Tower Semiconductor Ltd. (hereinafter – "Tower") finished the current year (in accordance with IFRS) with a loss of about $65 million, compared with a loss of about $141 million last year.

  In the third quarter, Tower realized income of about $147 million due to an arrangement of Tower's loans with the Corporation and the banks and the merger transaction with Jazz. In addition, Tower realized a loss of about $121 million due to a write-down of the equipment.

– The net financing expenses in the consolidated financial statements in the current year amounted to about $633 million compared with about $346 million last year.

  The sharp increase in the financing expenses in the period of the report derived mainly from consolidation of the results of ORL and Inkia, which were included in the last year for only part of the period, an increase in the scope of the Group's liabilities and from expenses in respect of the difference between the fair value and the cost of derivative financial instruments.

Set forth below are the factors which impacted the results of operations for the fourth quarter of the year of the report:

– ICL finished the fourth quarter of the current year with income of about $176 million, compared with income of about $173 million in the corresponding quarter last year.

– ORL finished the fourth quarter of the current year with a loss of about $183 million, compared with income of about $18 million in the corresponding quarter last year.

– ZIM finished the fourth quarter of the current year with a loss of about $199 million, compared with a loss of about $10 million in the corresponding quarter last year. In the fourth quarter of the year, ZIM recorded a provision for decline in value of property, plant and equipment, in the amount of about $95 million.

– Inkia finished the fourth quarter of the current year with a loss of about $14.7 million, and after eliminating the financing expenses to Israel Corporation the loss for the quarter amounted to about $12.6 million.

Results of Operations (Cont.)

- Tower finished the fourth quarter of the current year (in accordance with IFRS) with a loss of about $16 million, compared with a loss of about $36 million in the corresponding quarter last year.

- The net financing expenses in the fourth quarter of the current year amounted to about $204 million compared with about $159 million in the corresponding quarter last year.

- The Corporation finished the fourth quarter of the current year with a loss of about $312 million compared with income of about $1 million in the corresponding quarter last year.

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

Condensed Consolidated Quarterly Statement of Earnings

	1st Qtr. 2008	2nd Qtr. 2008	3rd Qtr. 2008	4th Qtr. 2008	Total for 2008
	$ millions	$ millions	$ millions	$ millions	$ millions
Sales	4,529	5,811	6,078	3,384	19,802
Cost of sales	3,763	4,534	4,847	3,388	16,532
Gross profit	766	1,277	1,231	(4)	3,270
Selling, administrative and R&D, and other income/expenses	328	373	314	385	1,400
Operating income	438	904	917	(389)	1,870
Financing expenses, net	106	135	188	204	633
Group's equity in losses of associated companies, net	(8)	9	(39)	(7)	(45)
Income before taxes on income	324	778	690	(600)	1,192
Taxes on income	44	136	73	(231)	22
Income (loss) for the period	280	642	617	(369)	1,170
Allocated to:					
Holders of the Corporation's equity rights	111	268	253	(312)	320
Minority interest	169	374	364	(57)	850
Income (loss) for the period	280	642	617	(369)	1,170

Set forth below is detail of the contribution of the principal subsidiaries to the Corporation's results:

	Year ended December 31		Three months ended December 31	
	2008	2007	2008	2007
	$ millions	$ millions	$ millions	$ millions
ICL	1,048	289	93	91
ZIM	(328)	22	(197)	(10)
ORL	(49)	19	(82)	4
Inkia Energy Ltd.	(6)	–	(15)	(3)
Tower	(65)	(45)	(5)	(10)

Following is a brief summary of the financial results of the principal investee companies:

Israel Chemicals Ltd.

ICL finished the year account with income of about $2,004 million, compared with income of about $553 million last year.

ICL finished the fourth quarter of the year account with income of about $176 million, compared with income of about $173 million last year.

ICL Group's sales in the year account amounted to about $6,904 million, compared with about $4,103 million last year – an increase of 68%.

The increase in revenues stems, mainly, from an increase in the sale prices of most of the ICL Group's products.

In the year of account, the results of Supresta were included, which was consolidated for the first time commencing from August 2007, as well as the water treatment activities that were acquired from the Henkel concern and the fire extinguishing operations of Biogima, the results of which were not included last year.

The gross profit in the year account was about 52% of the sales, compared with about 38% of the sales last year.

The increase in the gross profit in 2008 over 2007 is primarily the result of an increase in the selling prices of most of the Group's products. On the other hand, there was an increase in the prices of most of the inputs, including raw materials – mainly sulfur – and energy, and an increase in the shekel expenses in dollar terms, as a result of a strengthening of the shekel against the dollar, which acted to offset part of the increase in profitability.

The selling and marketing expenses increased in the current year by the amount of about $162 million over last year mainly due a sharp increase in bulk shipping prices in the first half of the year, as well as from an increase in commissions as a result of the higher prices and the impact of the strengthening of the shekel and the euro on the dollar-denominated expenses.

The administrative and general expenses amounted to $207 million – an increase of about $46 million over last year. The increase derives mainly from the strengthening of the shekel and the euro against the dollar.

The rate of the operating income to the total sales' turnover came to 34% compared with 18% last year. The improvement stems mainly from the sharp increase in the selling prices of potash, phosphate fertilizers and phosphate rock, as well as from the significant increase in the income of ICL Performance Products.

The financing expenses increased over last year by the amount of about $46 million. In the year of account, ICL recorded an expense of about $27 million constituting the difference between the fair value and the cost of the derivative financial instruments used for economic hedging, which do not meet the definition of an accounting hedge (pursuant to IFRS). This value reflects the exchange rates as at the balance sheet date and may change based on the changes in the rates on the expiration dates of the financial instruments.

Israel Chemicals Ltd. (Cont.)

In the year of account, the non-recurring expenses (not in the ordinary course of business) amounted to about $198 million, and in the fourth quarter they came to $103 million, based on the following detail:

	For the	
	Year Ended	**Three Months Ended**
	December 31, 2008	
Provision for decline in value of inventory (1)	164	124
Provision in respect of employee benefits (2)	24	–
Provision in respect of disputed VAT refunds	18	–
Provision for decline in value of PP&E in Magnesium	47	47
Total before tax effect	253	171
Tax benefit (3)	(55)	(68)
Net impact on the net income	**198**	**103**

(1) The provision was recorded against the background of the sharp decline in sulfur prices, which is a main raw material in the production of phosphate fertilizers, from a level of about $800 per ton to a level of about $100 per ton at the factory gate.

(2) The provision is in respect of employee benefits as part of an early retirement plan in the ICL Industrial Products sector, net of one-time income from a reduction in a benefits' plan in the ICL Fertilizers sector.

(3) Tax benefits stemming from the impact of shortening the cooling off period of the Operation Year of Approved Enterprises under the Grants Track as opposed to the start of the election year of a Benefited Enterprise from 5 years to 3 years.

The taxes on income in the year of account amounted to about $233 million, compared with about $120 million in 2007. The decline in the rate of tax on income stems from an increase in income taxable at a reduced rate the source of which is Approved and Benefited Enterprises that ICL had in connection with is activities in Israel, and from use of tax losses accrued by subsidiaries of ICL regarding which tax losses were not recorded in the past.

On November 16, 2008, Amendment No. 65 to the Law for Encouragement of Capital Investments was passed whereby the period between the start of the Operation Year for Approved Enterprises under the Grants Track and the start of the Election Year for a Benefited Enterprise (the "cooling off period") was shortened from 5 years to 3 years, with retroactive effect from April 1, 2005. Shortening of the cooling off period, as stated above, the source of which is Approved and Benefited Enterprises caused an additional increase in the tax exempt income.

In the year of account ICL's cash flows from current operating activities amounted to about $1,884 million, compared with about $571 million last year.

In the fourth quarter of the year of account, ICL's sales totaled about $1,118 million, compared with about $1,213 million in the corresponding quarter last year. The decline in sales derived from a decline in the quantities sold as a direct result of the global credit crisis that started in the second half of September 2008, and the worldwide economic slowdown resulting from it. High sale prices in the quarter compared with the corresponding quarter last year mitigated the impact of the lower total sales. Most of the decline in sales was in the fertilizers' area.

The net income in the fourth quarter of the year of account amounted to about $176 million, compared with about $173 million in the corresponding quarter last year.

Israel Chemicals Ltd. (Cont.)

The worldwide crisis that broke out in September 2008 and the resulting economic slowdown are expected to continue have an adverse impact on the ICL's activities in the beginning of 2009. ICL's sales in the first quarter of 2009 are expected to be lower than its sales in the fourth quarter of 2008 in all its activity sectors. With respect to some of ICL's products a decline is prices is also discernable. On the other hand, ICL is profiting from a fall in the prices of raw materials and other inputs, including marine shipping prices and energy costs, and is also enjoying a decrease in the shekel expenses due to the strengthening of the dollar. As a result of the present situation, ICL is taking a number of steps, including: increase of savings and efficiency measures, conformance of the inventory of certain of its products to the anticipated demand, analysis of investments and concentration of investments in the safety and environmental protection area, as well as in other strategic investments.

Oil Refineries Ltd.

ORL finished the year of account with a loss of about $109 million compared with income of about $142 million last year.

In the fourth quarter of the year of account ORL had a loss of about $183 million compared with income of about $18 million in the corresponding quarter last year.

The main factor impacting the results of the activities in the refining sector is the refining margin. The refining margin is the margin between the revenues from sale of the products sold by ORL and the cost of the raw materials acquired by ORL (mainly crude oil) at the factory gate. The amount of the margin is a function of the materials and their prices in the year of account, compared with the composition of the crude oil and its prices in the same period and depends on various market forces. The prices of crude oil and crude-oil products are subject to wide fluctuations and are fixed based on, among other things, worldwide supply and demand and are also affected by geopolitical events that are not directly related to production of the oil, however they are perceived by the markets as having a possible effect on future production. The amount of the refining margins is a result of the market forces acting at two different levels, one – supply and demand for crude oil, and two – supply and demand for the finished products.

In 2008, there was significant volatility in the prices of crude oil and its related products – the crude oil price of $97/barrel at the beginning of the year increased to about $140 per barrel at the beginning of the third quarter of 2008 and fell to about $36 per barrel at the end of the year. Concurrently, there was also a decline in the prices of the fuel products produced by ORL from the crude oil and sold by it.

During the year there was also a decline in the prices of fuel products manufactured by ORL from the crude oil and sold by it, however, there was no full correspondence between the dates on which the product prices changed and the scope of such changes, and the dates on which the crude oil prices changed and the extent thereof, which caused significant fluctuations in the refining margins.

An increase in the price of crude oil causes an increase in the amount of the working capital required by ORL to finance its acquisition and an increase in the value of the inventory on ORL's books, whereas a decrease in the price of crude oil causes a decrease in the amount of the working capital required by ORL to finance its activities and a decrease in the value of the inventory in ORL's books. ORL's economic exposure in respect of changes in the price of crude oil over time is hedged by means of hedging transactions executed by ORL in the futures' and derivatives' markets.

The decline in the prices of crude oil and its related products in the year of account had a material impact on the results in the fourth quarter of 2008. It is noted that does not hedge the value of the base inventory of 600,000 tons. The impact of the changes on the value of this inventory is not an economic or cash flow impact. Accordingly, ORL reports its results of operations after eliminating these impacts as well as additional impacts relating to the value of derivatives in accordance with the provisions of IFRS.

Oil Refineries Ltd. (Cont.)

Accordingly, ORl's operating results and refining margins for accounting purposes were impacted by: (1) a loss in respect of timing differences between the purchase price and the sale price, in the amount of about $81 million, with respect to its unhedged base inventory of abut 600 thousand tons (inventory regarding which changes in its value do not create a cash flow exposure for the company); (2) a provision for decline in value of inventory, in the amount of about $183 million; and (3) the changes in the fair value of derivatives on commodity prices due to the transition to reporting pursuant to international accounting standards (IFRS), in the amount of about $5 million.

Set forth below is a table summarizing the factors affecting the refining margin (in dollars per ton):

	2008	**2007**
Refining margin, net	9.9	57.7
Less –		
Impact of application of derivatives method (pursuant to IFRS)	(0.7)	2.6
Impact of buying and selling timing differences	9.9	(16.1)
Impact of decline in value of inventories (at the balance sheet date)	22.3	–
Margin after eliminations	41.4	44.2

The total sales in the refining sector in the year of account amounted to about $7,619 million, compared with about $5,010 million last year. The increase in the total sales stemmed mainly from an increase in the average price of the fuel products as well as from an increase in the quantities sold. The average price per ton of the products' basket in the Mediterranean Sea area that is roughly the same as the basket produced by ORL was about $850 in the year of account, compared with $613 last year.

In the year of account, ORL had a gross loss of $58 million, compared with gross income of $404 million last year. As a result of significant fluctuations in the prices of crude oil and its related products, ORL recorded a provision for decline in value of inventory, in the amount of about $183 million, of which about $115 million was in the fourth quarter of the year.

ORL's $1.1 billion strategic plan, which went into effect in November 2007, focuses on achieving growth by ORL and increasing its competitive capabilities in the upcoming years, while increasing the share of high value-added products in ORL's products' mix, and emphasizing the area of environmental protection. The outline of the plan envisions: (1) accelerated investments in the refining area, mainly in increasing the refining sophistication and efficiency and in economic sectors, in the estimated amount of $850 million, of which about $600 million in increasing the hydro-cracking capabilities of fuel products and other products having high added value; (2) identification of business opportunities in the refining and petrochemical sectors in and outside of Israel; (3) expansion of ORL's petrochemical activities while concentrating on high added value products in Israel and abroad; (4) expansion of the trade and logistics activities in connection with fuel products; (5) contemplated investments of roughly$270 million in environmental protection, safety and security area and higher operational reliability; and (6) adaptation of the organizational structure while splitting the activities into three sectors – refining, trade and petrochemical.

As part of implementation of the strategic plan it adopted in November 2007, ORL's Board of Directors approved construction of a hydro-cracker in the Haifa refinery (hereinafter – "the Facility"), which will produce middle distillates (diesel fuel and kerosene), with a total investment of $670 million. The Facility is expected to be operational in 2011.

In November 2008, Ma'alot Standard and Poor's (hereinafter – "Ma'alot") gave notice of reduction of the rating of the debentures of ORL (Series A, B and C as well as non-marketable debentures) from the level of AA/Stable to A/Negative.

Oil Refineries Ltd. (Cont.)

In an Immediate Report submitted by ORL, it requested to emphasize that at the time of issuance of the debentures (Series A–C) in December 2007, in the framework of which Ma'alot rated ORL's debentures AA/Stable, ORL took into account, as did Ma'alot, ORL's investments' forecast for the upcoming years as part of implementation of its strategic plan, and accordingly based on the terms of the debentures (Series A-C) most of the repayments of the debentures would take place in 2012 and thereafter, a period wherein ORL is expected to have a large cash flow contribution from the investments.

ORL further pointed out that since provision of the rating in November 2007 and up to the time the rating was reduced positive changes have occurred from its standpoint.

ORL reported that it carefully examined its steps when it prepared its strategic plan and a re-examination of the objectives examined indicated that the changes taking place in the markets are strengthening these objectives. In this plan, ORL took all its strong points into account, namely, personnel at the highest technological level in the world, integration of the petrochemicals industry with the refining industry, excellent strategic placement with favorable access to a wide range of crude oil types and proximity to growing markets, and strong, modern infrastructures in its central location in Haifa.

ORL indicated that in its estimation, the strategic plan it adopted and the large investments it intends to make, as well as the organizational changes and the efficiency measures it is implementing, will strengthen it compared with its situation at the time the rating was determined, on the eve of issuance of the debentures in 2007.

As a result of changes in the economic environment, subsequent to the balance sheet date, there were significant fluctuations in the prices of crude oil and its related products. The price of crude oil, which was at about $36.5/barrel on the balance sheet, increased to $50/barrel proximate to the publication date of the financial statements as a result of the above-mentioned changes, ORL expects to record a pre-tax capital gain of about $85 million in respect of the balance of inventory as at the balance sheet date, most of which was realized in the January and February.

ZIM Integrated Shipping Services Ltd.

Set forth below is main data from ZIM's statement of income:

	For the Year Ended December 31		For the Three Months Ended December 31	
	2008	2007	2008	2007
	$ millions			
Income from voyages and accompanying services	4,325	3,809	925	1,057
Operating expenses and cost of services	(4,262)	(3,531)	(915)	(995)
Operating depreciation	(118)	(96)	(30)	(28)
Provision for impairment of property, plant and equipment	(95)	–	(95)	–
Gross profit (loss)	(150)	182	(115)	34
Other operating income, net	63	20	10	8
Administrative and general expenses	(163)	(149)	(39)	(46)
Operating income (loss)	(250)	53	(144)	(4)
Financing expenses, net	(202)	(37)	(119)	(11)
Share in income (loss) of associated companies, net	12	11	(1)	3
Tax benefit (taxes on income)	101	(6)	60	1
Minority interest	(6)	(2)	(5)	(1)
Income (loss) for the period allocated to the holders of the Company's equity rights	(332)	23	(199)	(10)

ZIM Integrated Shipping Services Ltd. (Cont.)

Set forth below is main data from ZIM's statement of cash flows:

	For the Year Ended December 31		For the Three Months Ended December 31	
	2008	2007	2008	2007
	$ millions			
Cash flows provided by (used in) operating activities	**(134)**	115	**(6)**	66
Acquisition of ships and ship equipment	**(461)**	(860)	**(82)**	(300)
Proceeds from sale of ships and ship equipment	**169**	22	**130**	7
Cash flows provided by financing activities	**542**	649	**61**	210
Total depreciation and amortization (including provision for impairment of property, plant and equipment	**(233)**	(107)	**(130)**	(31)

Set forth below is main data from ZIM's balance sheet:

	As at December 31	
	2008	2007
	$ millions	
Total financial liabilities	**2,248**	1,840
Total monetary assets	**391**	270
Liabilities for deferred tax liabilities, net	**67**	183
Shareholders' equity	**506**	619
Total assets	**3,340**	3,149
Payments on account of construction of ships (before provision for impairment of property, plant and equipment	**732**	635

Brief summary of ZIM's results

ZIM's net loss in 2008 amounted to about $332 million compared with income of about $23 million last year.

Zim's revenues in the year of account came to about $4,325 million, compared with about $3,809 million last year – an increase of about 13.6%. The increase in the total revenues stems mainly from an increase in the quantities shipped, an increase in shipping fees and an increase in revenues from subsidiaries. In the year of account the average shipping price per container rose by 9.1% and the quantity shipped increased by 5.9%.

In the year of the report, ZIM shipped about 2,520 thousand TEUs, compared with 2,379 thousand TEUs last year.

ZIM's operating loss in the year of account amounted to about $250 million, compared with operating income of about $53 million last year. The transition from income to an operating loss stems from an increase in the operating expenses at rates in excess of the increase in the revenues, mainly an increase in the fuel expenses at the rate of about 61%, an increase in expenses relating to handling of the cargo at the rate of about 14%, and an increase in ship leasing fees (including volume leasing) at the rate of about 25% compared with last year. In addition, in the fourth quarter of the year of account, a provision was recorded, in the amount of $95 million, for impairment of the property, plant and equipment.

ZIM Integrated Shipping Services Ltd. (Cont.)

The general and administrative expenses increased in 2008 by about 9% over last year, primarily as a result of the upward revaluation of the shekel against the dollar, an increase the depreciation expenses and the costs of office maintenance. The increase was partially offset by the exit of a subsidiary from the consolidation.

The "other operating expenses, net" category amounted to about $63 million in 2008, compared with about $20 million last year. The amount derives mainly from a capital gain, in the amount of about $45 million, in respect of sale of container vessels.

ZIM's financing expenses in the year of account totaled about $202 million, compared with about $37 million last year. The increase derives mostly from the results of fuel hedging transactions, in the amount of about $117 million, and currency hedging transactions, in the amount of about $41 million.

ZIM finished the fourth quarter of 2008 with a loss of about $199 million, compared with a loss of about $10 million in the corresponding quarter of last year.

In the fourth quarter of the year, ZIM's total revenues came to about $926 million compared with about $1,057 million in the corresponding quarter of last year – a decrease of about 12.4%. The decrease in the total revenues is mainly the result a decrease in quantities shipped and a decrease in the revenues from subsidiaries, which was offset by an increase in an increase in demurrage fees. In the fourth quarter the average shipping price per container rose by 8.8% from $1,432 per container to $1,547 per container. The quantity shipped in the fourth quarter amounted to 584 thousand TEUs compared with 631 thousand TEUs in the corresponding quarter of last year. In the fourth quarter of the year of account, a provision was recorded, in the amount of $95 million, for impairment of the property, plant and equipment.

ZIM's operating loss in the fourth quarter of 2008 amounted to $144 million, compared with about $4 million in the corresponding quarter of last year. In the fourth quarter of the year of account, a provision was recorded, in the amount of $95 million, for impairment of the property, plant and equipment.

The net financing expenses in the fourth quarter of the year amounted to about $119 million, compared with expenses of about $11 million in the final quarter of 2007. The increase stems from the results of fuel hedging transactions, in the amount of about $84 million, and from the results of currency rate hedges, in the amount of about $55 million.

The administrative and general expenses dropped in the fourth quarter of 2008 compared with the fourth quarter of last year by 17%, deriving mostly from a decline in salaries as a result in a decrease in the liability to employees upon retirement and a cancellation of bonuses.

– In 2008, ZIM recognized a loss from impairment in value, in the amount of about $95 million (about $71 million after taxes) in connection with payments it made on account of acquisition of ships. The realizable amount with respect to the payments on account of acquisition of ships was determined based on the usage value of the ships to be received. The usage value was calculated by an independent, external appraiser, by means of discounting the cash flows anticipated from use and operation of the ships being acquired using an annual discount rate of 13.3%. The valuation is attached to the financial statements.

– During February 2008, the Audit Committees and Boards of Directors of ZIM and Israel Corporation Ltd. approved extension of the lease period, on market terms, for periods not in excess of 5 years, with respect to the ships leased to ZIM by companies owned by interested parties in the Corporation, where the last lease period does not exceed 5 years.

ZIM Integrated Shipping Services Ltd. (Cont.)

- In March 2008, ZIM entered into an undertaking with a third party (unrelated) for sale of one ship having a capacity of 2,450 TEUs (which was acquired by ZIM in July 2007) at the price as it is denominated in the acquisition contract in Japanese yens (back-to-back) and a re-lease thereof for a period of 15 years. ZIM has an option to acquire the ship at the end of the period, for a price of $13.5 million or, alternatively, to extend the lease period by an additional 5 years, at the conclusion of which it will acquire the ship for a price of $1.

  During the first 15 years, the lease fees will be $13,500 per ship, while during the next 5 years the lease fees will be $9,500 per ship.

- In May 2008, ZIM signed agreements for leasing of two ships having a capacity of 4,860 TEUs each from a third party (unrelated). The ships were leased by ZIM for a period of 7 years at a daily lease fee of $32,587 per ship.

- In June 2008, ZIM published a proposal to its shareholders to acquire ZIM shares by means of a rights offering, based on a value for the company of $500 million, such that every 2 shares of ZIM will confer the right to acquire one share. The Corporation responded affirmatively to the proposal and invested the amount of about $246 million in exchange for 10,393,788 shares of ZIM. After the issuance, the rate of Corporation's holdings in ZIM increased from about 98.4% to about 99.1%.

- In 2007, ZIM signed an agreement for sale of 2 ships having a capacity of 6,350 TEUs each on the date of their receipt from the shipbuilder. The capital gain will be included at the time each ship is received in 2008 and 2009. In the third quarter of the year, one of the two ships was received and was delivered to the purchasers in exchange for the amount of about $111 million. The capital gain realized by ZIM amounted to about $33 million (about $25 million after taxes).

  Subsequent to the balance sheet, the second ship was received. The consideration in respect thereof is about $112 million and the capital gain will be about $33 million.

- In July 2008, ZIM notified that it joined (through its subsidiary, ZPL) a group interested in participating in a tender for development of a containers' terminal in the Ennore port in India. The said containers' terminal will hold about 1.5 million TEUs and the estimated cost of its construction is about $300 million. The terminal is expected to commence its operations in 2011 and the concession period for its operation will be 30 years. ZPL's will hold a 22% interest in the group. The group to which ZPL belongs reached the RFP stage (request for submission of bids) together with 5 other groups. Participation of all the groups in the RFP is still subject to a security approval from the government of India. Subsequent to the balance sheet, ZIM announced that ZPL notified the other companies in the group for development of the terminal of its exit from the group and its participation in the project. ZIM does not expect to pay any fine whatsoever or compensation due to its exit.

- On September 10, 2008, Standard and Poors Ma'alot (hereinafter – "Ma'alot") gave notice that it is reducing the rating of ZIM's debentures from A+/Stable to A/Negative and on February 18, 2009, Ma'alot gave notice that it is further reducing the rating from A/Negative to BB+/Negative.

- As noted in the Report of the Corporations' Board of Directors as at September 30, 2008, along with and as part of the global financial crisis, there have been a number of negative developments in the international shipping market, which have become even more pronounced in the current period including, among others, a high supply of ships compared with a moderate demand, a fact that leads to an increasing decline in utilization of the ships and the shipping fees. Continuation of the difficult conditions in the international shipping market is continuing to have an adverse impact on ZIM and on, among other things, the results of its operations, its compliance with financial covenants and its ability to raise money, as well as on its financing conditions.

ZIM Integrated Shipping Services Ltd. (Cont.)

Similar to many other international shipping companies, ZIM has taken and is continuing to take various steps aimed at coping with the changes in the market situation, including changing its strategic plan, pursuant to which ZIM planned significant investments in the upcoming years both in its shipping capacity and in the quantities shipped. As part of adaptation of its strategic plan to the present market conditions, ZIM is taking various steps, including: carrying on negotiations with the shipyards from which it has ordered ships; return of certain leased ships (based on its needs) to their owners at the end of the lease contract; making preparations for the required changes in certain shipping routes, including a reduction of activities in certain markets; idling ships that are not being utilized due to reduction of the shipping lines; examination of the feasibility of exiting investments regarding matters auxiliary to the shipping lines activities; reduction of administrative expenses including dismissal of employees; etc.

ZIM has only partial control and flexibility with respect to the amounts of its expenses. The extent of its costs changes based on the relevant type of activities it undertakes, such as: closing down shipping lines, idling ships that are not being utilized and reduction of various expenses, personnel, consumption of fuel and its price and terminal activities.

As part of change of its strategic plan, as noted above, ZIM is holding negotiations with the shipyards with which it has ship building agreements, where ZIM's objective in these negotiations is to cancel the acquisition of some of the ships that were ordered or to postpone the delivery date of some of them, as well as to spread part of the payments for acquisition of the ships by providing to the Company certain amounts of credit, a process that is expected to continue for another few months.

Further to contacts between ZIM and its lending banks, most of the banks agreed to change or waive compliance with certain financial ratios.

As at December 31, 2008, one of the lenders agreed change the loan agreement (the balance of the loan to this lender, as at December 31, 2008 is $325.6 million), such that the financial covenants will be examined for the first time commencing from the publication date of ZIM's financial statements as at March 31, 2009.

As at December 31, 2008, ZIM was in compliance with some of its financial covenants as amended in the agreements with the lending banks. Loans in the amount of about $108.1 million, regarding which ZIM was not in compliance with the financial covenants, were reclassified to current liabilities.

In addition, as at December 31, 2008, ZIM has received a waiver of its compliance with financial covenants in connection with debts in the amount of about $710.4 million (aside from the loan of $325.6 million referred to above) as defined in the loan agreements.

ZIM is carrying on negotiations with the lending banks for purposes of establishing new financial covenants that will apply to the said debts. If an agreement is not reached between the parties and/or the lenders do not agree to amend the date for compliance with the financial covenants, the relevant debts will become repayable on demand commencing from June 2009. In the estimation of ZIM's management, based on the negotiations with the representatives of the lending banks, a new agreement will be reached and ZIM will comply with the financial covenants determined therein.

– On November 26, 2008, the Corporation reported that, in principle, it is prepared to invest $150 million in ZIM, up to June 30, 2009, if and to the extent the circumstances require such an investment based on the Corporation's discretion. The Corporation's readiness, in principle is, among other things, against the background of the conditions of the shipping market and the international credit market, and their impact on ZIM.

ZIM Integrated Shipping Services Ltd. (Cont.)

– Subsequent to balance sheet date the Company requested to terminate the lease agreement of the ship "Car Star 1", which is leased from an interested party until April 13, 2011. The parties agreed as follows:

  The present lease agreement will be terminated at the end of the current voyage. The period between the actual return date of the ship (hereinafter – "the Return Date") and the return date based on the original agreement (April 13, 2011) will be considered the balance of the lease period (hereinafter – "the Balance of the Lease Period").

  ZIM reserves the right, during 9 months from the Return Date, to notify the interested party by means of an advance notice of 3 months (hereinafter – "the Notice Period") of its interest in leasing a car ship from the interested party (or any of its subsidiaries) a that has characteristics similar to those of "Car Star 1" for a period equal to the Balance of the Lease Period and for the lease payments specified in the original agreement ($20,000 per day) and the interested party will make significant efforts to buy or lease a ship as stated for purposes of its lease to ZIM on these conditions.

  If at the end of the option period and the Notice Period ZIM has not exercised its right, ZIM will pay the interested party (or its subsidiary) the lease payments less the operating cost component of the ship, in the amount of $5,750 per day, throughout the Balance of the Lease Period (hereinafter – "the Compensation"). The Compensation, in the amount of $14,250 per day during the Balance of the Lease Period is to be paid in 24 equal monthly payments beginning from the end of the option period.

  If ZIM exercises its option, however the interested party did not succeed in buying or leasing a substitute ship up to the end of the Notice Period, the foreign company will give notice of the estimate purchase or lease date as stated, and if ZIM is interested in waiting up to this date, execution of the lease arrangement will be delayed up to the date the substitute ship is received.

  If during the above-mentioned deferral period the foreign company gives notice that it is unable to buy or lease a substitute ship, or if ZIM decides it is not interested in waiting until such a substitute ship is located and transferred to it, payment of the Compensation will begin from notification date of the inability as stated, however, in any case, not before the passage of 12 months from the Return Date.

Inkia Energy Ltd.

Inkia finished the year of account with a loss of about $5.7 million. In the year of account, Inkia incurred non-recurring legal expenses in the amount of about $4.7 million.

After eliminating the financing expenses to Israel Corporation and the above-mentioned non-recurring expenses, the income for the year of account amounted to about $10.8 million. In 2007, Inkia's operations were included in the consolidated financial statements commencing from the third quarter of the year.

Inkia's total revenues in the year of account amounted to about $290 million.

Inkia's EBITDA in the year of account amounted to about $67.8 million (the proportional amount of the EBITDA of each of the investee companies).

In the fourth quarter of the year of account, Inkia incurred a loss of about $14.7 million, and after eliminating the financing expenses to the Corporation, the loss amounted to about $12.6.

Inkia's pro rata EBITDA amounted to about $11.4 million in the fourth quarter of the year of account, (the proportional amount of the EBITDA of each of the investee companies). Inkia's total revenues in the fourth quarter of the year of account amounted to about $57 million.

Inkia Energy Ltd. (Cont.)

As at the balance sheet date, Inkia's net debt (not including the loan from Israel Corporation) amounted to about $314 million.

Set forth below are the main factors affecting Inkia's income in the second half of the year:

1. Seasonality – Inkia is impacted by weather conditions based on the electricity production technology it uses in the countries in which it operates. Some of the power stations in South America operate based on hydro-electric power. Most of the year of the report is a dry period in South America and the fourth quarter was much dryer than the multi-year average, which had an adverse impact on the results. In Central America the power stations operate based on generators, and most of the period of the report was a rainy period (in the fourth quarter of the year there was much more rain than the annual average) which, once again, had an adverse impact on the results.

2. The fluctuations in the fuel prices had an adverse impact on the results of some of the power plants due to the difficulty in transferring the price increase to the market.

3. Change in the tax laws in Bolivia in connection with adjustment for inflation gave rise to an increase in the tax expenses.

4. In addition to the fact that the period in Peru was a dry period, the demand for gas increased beyond that anticipated and beyond the supply capacity of the gas pipeline in Peru, such that Inkia received natural gas for only part of its production capacity and was forced to purchase the deficiency via electricity (the difference between the production capacity and the sale commitment) at very high prices.

– In July 2008, Kallpa Generation SA (hereinafter – "Kallpa"), a wholly owned subsidiary of Inkia, signed an agreement with the German company, Siemens, for construction of an additional gas turbine, which is expected to be placed into service in the first half of 2010, having an estimated cost of about $100 million. The additional turbine will join the existing turbine located on the site and a turbine that is under construction that will be placed into service in the first half of 2009. After completion of the turbines, the capacity on the site will reach about 570 megawatts.

– In July 2008, Inkia issued debentures to institutional investors in Peru in the amount of about $88 million, which were rated in Peru with a rating of AA–. The amount was used for repayment of part of the loan from Israel Corporation.

– Inkia requested from the Securities Authority in Peru (hereinafter – "the Authority") an exemption from the requirement of making a tender offer, to the extent such requirement applies to it under Peru law, in connection with a certain amount of its indirect holdings in a public Peru company, Edegel. In addition, Inkia requested a waiver in connection with making a tender offer from the other shareholders of Edegel, as well as from the shareholders of Generandes, a company in which Inkia also has indirect holdings and regarding which the possible requirement to make a tender offer arose.

  During the second quarter of the year, Inkia succeeded in obtaining waivers from the shareholders of Generandes and, therefore, under Peru law it will not be required to make a tender offer with respect to its holdings in Generandes. During the third quarter, Inkia received a response from the Authority wherein it rejects Inkia's request for an exemption from making a tender offer in connection with its holdings in Edegel.

  Inkia has appealed the decision pursuant to its right under Peru law.

  In the opinion of its legal advisors, at this stage Inkia is not able estimate the chances that the appeal will be accepted.

Tower Semiconductor Ltd.

Tower finished the year of account (in accordance with IFRS) with a loss of about $65 million, compared with a loss of about $141 million last year. In the third quarter of the year of account, Tower realized income of about $147 million as a result of arrangement of its loans with the Corporation and the banks, as well as from the merger transaction with Jazz. In addition, Tower realized a loss of about $121 million due to a write down of the equipment.

Tower finished the fourth quarter of the year (in accordance with IFRS) with a loss of about $16 million, compared with a loss of about $36 million in the corresponding quarter last year.

In the year of account, Tower's sales increased and amounted to about $252 million, compared with about $231 million last year, whereas its cost of sales amounted to about $299 million, compared with about $285 million last year

– In May 2008, Tower signed an agreement for acquisition of shares of Jazz Technologies (hereinafter – "Jazz"), a leading company in the area of production of products having significant analogue components. Pursuant to the agreement, Tower will acquire shares of Jazz in a share swap transaction based on a value of Jazz's equity of $40 million, where each Jazz share will be converted against 1.8 Tower shares. In September 2008, the merger transaction was completed.

– On August 19, 2008, a memorandum of understanding was signed between Tower and Bank Leumi Ltd. and Bank Hapoalim Ltd. (hereinafter – "Banks") and the Corporation, for restructuring Tower's debts in such a manner that there will be a significant decline in the scope of its debts to the Banks and to the Corporation. In September 2008, the merger transaction was completed. The highlights of the arrangement are set forth below:

A. <u>Highlights of the Arrangement with the Banks</u>:

1. $200 million of Tower's debt to the Banks was converted into capital notes, exercisable for shares of Tower. The credit agreements signed with the Banks are to be amended accordingly. The conversion was made on the basis of a price per share of $1.42, which represents two times the average closing price per share on NASDAQ during the ten trading days prior to August 7, 2008 (which was the date of Tower's first public announcement regarding its debt restructuring negotiations).

2. The repayment to the Banks of the remaining principal of the loans after the conversion (approximately $200 million) was postponed until September 2010.

3. The interest payments of Tower to the Banks pursuant to the credit agreements, originally due in the four quarters beginning September 30, 2008, were postponed and will be added to the debt principal, the payment of which is postponed such that it will begin in September 2010.

4. The banks waived Tower's compliance with financial covenants regarding the last two quarters of 2008.

B. <u>Highlights of the Arrangement with the Corporation</u>:

1. $50 million of Tower's debt to the Company was converted into capital notes, exercisable for shares of Tower. The said debt includes a loan of $30 million and $20 million of debentures (principal and accrued interest) that were issued to the Corporation in 2005. The debt conversion was on the basis of the same price per share of the said debt conversion of the Banks.

Tower Semiconductor Ltd. (Cont.)

B. Highlights of the Arrangement with the Corporation: (Cont.)

2. The Corporation invested $20 million in Tower against issuance of capital notes exercisable for 28,169,014 shares of Tower, where the number of shares was calculated based on the average price per Tower share on NASDAQ in the ten trading days prior to August 7, 2008 (which was the date of Tower's first public announcement regarding its debt restructuring negotiations).

   As at December 31, 2008, the Corporation's share in Tower's equity declined (taking into account conversion of the capital notes) to about 30% and the Corporation realized a capital gain in the amount of about $25 million.

3. The Corporation undertook to provide Tower, from time to time, for a period ending on December 31, 2009, amounts the sum of which will not exceed $20 million. The said amounts will be invested in Tower in order to assist it with its cash flows in certain cases and in circumstances in which Tower will need such amounts. Subsequent to the balance sheet date, on January 7, 2009, the amount of $20 million was transferred to Tower against issuance of capital notes convertible into shares of Tower. The number of shares was calculated based on a price per share of NIS 1, which is the par value of Tower's shares. After the investment, the Corporation's share in Tower (assuming the capital notes are converted into shares) rose to about 39.3% of Tower's capital.

Sources of Financing for the Corporation and the Headquarters Companies and Liquidity

As at December 31, 2008 the financial liabilities of the Corporation and its wholly owned and fully controlled headquarters companies (hereinafter – "the Headquarters Companies") amounted to about $2,178 million, including reduction of the impact of currency and index SWAP transactions in respect of debentures, in the amount of about $109 million.

As at the balance sheet date the investments of the Corporation and its Headquarters Companies in liquid resources amounted to about $455 million. The amounts are invested mainly in dollar deposits, in shekel Government debentures, as well as corporate debentures and shares in Israel and abroad.

As at the balance sheet date the net debt of the Corporation and its Headquarters Companies was about $1,683 million

The Corporation replaced short-term loans, as follows: about $150 million, for a long-term loan repayable in a single payment in March 2013, a loan in the amount of about $30 million repayable in a single payment in May 2013, and another loan, in the amount of about $30 million, which is repayable in 10 semi-annual installments commencing from November 2009.

The Corporation raised about $139 million by means of increasing the debentures (Series 6) and about $92 million through the issuance of debentures (Series 8) bearing unlinked interest at the rate of 6.8% per year repayable in 4 equal annual payments commencing from December 31, 2011.

Subsequent to the balance sheet date, in February 2009, Ma'alot gave notice of reduction of the rating of the Corporation's debentures from a rating of AA/Stable to a rating of AA/Negative, with a forecast of a rating reduction.

Sources of Financing for the Corporation and the Headquarters Companies and Liquidity (Cont.)

In the year of the report, the Corporation executed transactions hedging long-term liabilities that create exposure to changes in the currency exchange rate, interest rates and inflation rates. As at December 31, 2008, there was a balance of interest and currency SWAP transactions, in the aggregate scope of about $980 million, a balance of transactions fixing the rate of increase of the CPI, in the amount of about $95 million, and a balance of transactions hedging against changes in the variable Libor interest rate, in the overall amount of about $600 million, plus an additional amount in a contingent transaction of $330 million exercisable in 2009.

As at December 31, 2008, the aggregate scope of the shekel exposure of the Headquarters Companies is about $350 million. The scope of the exposure to the Consumer Price Index was about $380 million and to a change in the Libor interest rate about $950 million (with the contingent transaction in the amount of $330 million).

As at the signing date of the financial statements, the exposure of the Headquarters Companies to changes in the interest rate decreased by about $150 million and the exposure to changes in the index decreased by about $60 million, mainly as a result of interest rate and currency SWAP transactions executed by the Corporation.

Exposure to Market Risks and Risk Management

Risks affecting the Corporation

The Corporation views most of its investments as dollar-based investments. Accordingly, the loans taken out by the Corporation to finance these investments are mainly dollar loans and dollar-linked debentures together with a transaction for exchanging the linkage basis to the dollar. The changes in the dollar exchange rate on the foreign currency liabilities of the Corporation and its headquarters companies, which finance investments in companies that issue dollar-adjusted financial statements, are recorded in a capital reserve and, therefore, are not reflected in the operating results. Despite the aforesaid, there may be differences stemming primarily from differences in the timing of receipt of the loans, their repayment and the exchange thereof from a CPI-linked liability to a dollar liability. The Corporation partially hedges this exposure by means of various financial instruments, including execution of currency and derivative transactions in commercial banks (such as dollar/shekel forward transactions and dollar/shekel options).

As part of the credit agreements, there are requirements to maintain certain financial ratios, including a minimum ratio between the value of collateral and the balance of the outstanding credit. The collateral given is usually shares of ICL and their value for purpose of the agreements is derived from their stock market value.

The Corporation's main dollar financing activities bear variable interest that changes on a quarterly, semi-annual or annual basis. In this context, the Corporation has adopted a policy whereby it hedges the outstanding loans bearing variable interest with the volume being determined from time to time and according to which the range and limitation on the interest rate is determined or created. As at December 31, 2008, the balance of the hedged transactions is about $600 million, plus an additional contingent amount of $330 million. Subsequent to the balance sheet date, an additional transaction was entered into fixing the interest in the amount of $100 million.

Part of the sources of the Corporation's financing is supported by the local stock market. Credit from these sources is usually executed in CPI-linked or unlinked shekels. From time to time, the Corporation exchanges part of the aforesaid liabilities for dollar liabilities in forward transactions at interest rates that change, in general, once a year. As at December 31, 2008, the scope of these transactions is $980 million. Subsequent to the balance sheet date, an additional transaction was entered into in the amount of $13 million.

Exposure to Market Risks and Risk Management (Cont.)

The hedging transactions described above do not meet the hedging criteria provided in the international standards and, therefore, the said financial instruments are measured at fair value and changes in the fair value of these instruments are recorded on the statement of income.

The Corporation's policy is to invest these balances in low risk investments with the mix being changed from time to time. As at December 31, 2008, about 67% of the financial assets were invested in dollar channels, mainly deposits, about 27% in shekel investments, mainly, government debentures, about 5% CPI-linked corporate bonds in Israel and overseas and about 2% in shares. The risks involved in these investments are: exposure to changes in interest rates, and the expectations of changes in these rates which is reflected in the prices of bonds on the stock exchange.

Pursuant to the provisions of the accounting standard regarding the first-time adoption of International Financial Reporting Standards (IFRS), commencing with the financial statements for the first quarter for 2008, the Corporation will prepare its statements in accordance with IFRS.

Commencing with the financial statements for the first quarter of 2008, the Corporation prepares its financial statements in accordance with international financial reporting standards.

The Corporation's policy regarding the manner of holding the financial balances is to invest them in different channels in a composition that changes from time to time. As at December 31, 2008, about 67% of the financial assets were invested in dollar investment items, mainly deposits, about 27% in shekel channels, mainly government debentures, about 5% in index channels in Israeli and foreign corporate debentures, and 2% in shares. The risks involved with these investments are changes in the interest rates and expectations of changes therein that are translated into the stock market debenture prices.

Commencing from the financial statement for the first quarter of 2008, the Corporation prepares its financial statements in accordance with international financial reporting standards (IFRS).

Up to December 31, 2007, pursuant to Israeli reporting standards, the shekel was the functional currency in the Corporation's financial statements. Accordingly, accounting exposures were created between the exchange rate of the shekel and the exchange rates of the other currencies in which the Corporation carried on activities. Commencing from January 1, 2008, upon adoption of international financial reporting standards (IFRS) the Corporation's functional currency was defined as the dollar (U.S.). As in the past, the Corporation's exposures are measured from an economic standpoint vis-à-vis the dollar.

The Corporation's risk management is derived from the policies of the Board of Directors and decisions of the Board of Directors' Finance Committee, which receive reports from time to time.

The responsible party for risk management is the Chief Financial Officer and details with respect thereto are included in the Section "Additional Details on the Corporation".

Exposure to Market Risks and Risk Management (Cont.)

The Corporation's Consolidated Derivative Positions as at December 31, 2008

	Par value in $ millions		Fair value in $ millions	
	Long	**Short**	**Long**	**Short**
Hedging changes in variable LIBOR interest rates on dollar loans				
Over one year				
CAP options	150	–	0.8	–
FLOOR options	150	–	(9.1)	–
IRS options	368	–	(26.4)	–
Over one year – not recognized for accounting				
CAP options	550	–	(4.5)	–
FLOOR options	550	–	(24.9)	–
IRS options	517	106	(37.3)	8.1
Other options	489	–	(30.7)	–
Up to one year – not recognized for accounting				
CAP options	250	–	–	–
FLOOR options	250	–	–	–
IRS options	200	–	(4.0)	–
Other options	25	–	(0.3)	–
Hedging changes in exchange rate and interest rate swaps on loans, recognized for accounting purposes – over one year				
SWAP contract for variable interest dollar liability from fixed interest CPI-linked liability – not recognized	–	1,365	–	194.4
SWAP contract for variable interest dollar liability from fixed interest shekel liability – not recognized	–	232	–	13.9
SWAP contract for fixed interest dollar liability from fixed interest CPI-linked liability – not recognized	–	112	–	28.5
SWAP contract for fixed interest dollar liability from fixed interest liability – recognized	4	20	(0.7)	1.0
Hedging changes in exchange rates on cash flows – up to one year – not recognized for accounting				
Shekel/Dollar				
Forward contract	65	100	(1.1)	(1.3)
Call options	–	157	–	(3.3)
Put options	–	199	–	5.9
Euro/Dollar				
Forward contract	571	–	(5.8)	–
Call options	131	–	(2.3)	–
Put options	130	–	12.3	–
Hong Kong Dollar/Dollar				
Forward contract	–	108	–	–
Call options	–	22	–	–
Put options	–	22	–	–
Yen/Dollar				
Forward contract	11	0.2	–	–
Call options	11	(0.8)	–	–
Put options	11	–	–	–
Euro/Pound				
Forward contract	–	20	–	(0.1)
Call options	59	–	(10.9)	–
Put options	59	–	0.3	–

Exposure to Market Risks and Risk Management (Cont.)

The Corporation's Consolidated Derivative Positions as at December 31, 2008

	Par value in $ millions		Fair value in $ millions	
	Long	**Short**	**Long**	**Short**
Forward contracts				
Shekel/euro	–	2	–	(0.2)
Shekel/pound	5	–	0.4	–
Pound/dollar	3	–	0.3	–
Yuan/dollar	–	74	–	(3.0)
Hedging changes in the variable (Libor) interest rate on dollar loans				
SWAP transactions hedging the price of raw materials – fuel at price fixed in advance – not recognized for accounting – up to one year				
Forward contract	352	130	9.2	(3.0)
Call options	27	–	(11.2)	–
Put options	51	–	(23.6)	–
SWAP transactions hedging selling margins – not recognized for accounting – up to one year	93	66	3.5	3.5

Sensitivity Analysis to Changes in the Market Factors (Consolidated)

The market risks were defined in accordance with the definitions in the international standards. Pursuant to the Securities Regulations, market risks include the potential for changes in the fair value of the financial instruments, which include the following types of risks:

1. Currency risk – as a result of changes in the rates of exchange of foreign currency in relation to the dollar, against which the Corporation measures the exposure.
2. Interest rate 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 Consumer Price Index.

The sensitivity analysis is made for the risk factors characterizing the portfolio's components, to changes in the currency exchange rate, changes in the dollar interest rate, changes in the shekel interest rate, changes in the real rate of interest and changes product prices

Measurement of the changes in the fair value is made in millions of dollars. The following tables present the changes of instruments sensitive to the parameters presented at the top of the table and relating to the fair value the instruments that are sensitive to the parameter presented.

The Group made sensitivity analyses in respect of changes in the upper and lower ranges of 5% and 10% of the market factors, except for the interest rates. In light of the low interest rates as at the balance sheet date, the sensitivity tests with respect to changes in the interest rates were made using a plus/minus of 0.5% and 1% for the current interest curves in order to better reflect the interest exposure. The market tests were made as at the balance sheet date.

The Corporation's functional currency is the dollar and therefore the measurement of the changes in the exchange rates was made vis-à-vis the dollar.

Exposure to Market Risks and Risk Management (Cont.)

Sensitivity Analysis to Changes in the Market Factors (Consolidated) (Cont.)

Sensitivity analysis to changes in 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
	Plus 1%	Plus 0.5%		Minus 0.5%	Minus 1%
Instrument Type					
Debentures	75	37	(1,962)	(36)	(74)
SWAP from index to dollar with variable interest*	(73)	(37)	195	37	75
SWAP from index to dollar with fixed interest*	(6)	(3)	29	4	7
Total	(4)	(3)	(1,738)	5	8

Sensitivity analysis 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
	Plus 1%	Plus 0.5%		Minus 0.5%	Minus 1%
Instrument Type					
Debentures	10	4	(223)	(4)	(9)
SWAP from index to dollar with variable interest*	(9)	(5)	14	5	9
Total	1	(1)	(209)	1	–

Sensitivity analysis to changes in Libor interest:

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Plus 1%	Plus 0.5%		Minus 0.5%	Minus 1%
Instrument Type					
Long-term bank loans – fixed interest	11	6	(382)	(6)	(11)
Debentures	2	1	(66)	(1)	(2)
SWAP transactions from Seuli to fixed dollar*	5	2	(22)	(3)	(5)
SWAP transactions from index to fixed dollar*	5	3	28	(3)	(6)
IRS transactions from variable interest to fixed interest*	34	16	(62)	(17)	(37)
COLLAR transactions*	21	11	(37)	(15)	(25)
SWAPTION transactions from variable interest to fixed interest	18	10	(31)	(11)	(22)
Total	96	49	(572)	(56)	(108)

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

Exposure to Market Risks and Risk Management (Cont.)

Sensitivity Analysis to Changes in the Market Factors (Consolidated) (Cont.)

Sensitivity analysis to changes in 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					
Marketable securities	7	4	72	(4)	(7)
Debentures	(192)	(96)	(1,962)	96	164
SWAP transactions from index to variable dollar*	164	82	195	(82)	(164)
SWAP transactions from index to fixed dollar*	16	8	29	(8)	(16)
Purchase of index differentials*	10	5	(7)	(5)	(10)
Total	5	3	(1,673)	(3)	(33)

Sensitivity analysis to changes in exchange rates:

	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%
Shekel/Dollar					
Instrument Type					
Cash and cash equivalents	(4)	(2)	45	2	5
Marketable securities	(21)	(13)	228	11	25
Short-term deposits and loans	(6)	(3)	58	3	6
Other receivables and debit balances	(17)	(9)	175	9	18
Inventory	(13)	(2)	32	6	13
Long-term loans and deposits	(2)	(6)	129	1	2
Credit from banks and others	12	6	(118)	(6)	(12)
Trade payables	32	15	(319)	(16)	(34)
Other payables and credit balances	17	9	(173)	(9)	(18)
Liabilities for employee benefits	5	3	(50)	(3)	(5)
Long-term loans from banks	5	2	(48)	(2)	(5)
Debentures	200	105	(2,239)	(114)	(242)
SWAP transactions from index and shekel to variable dollar*	(171)	(89)	208	98	207
SWAP transactions from index to fixed dollar*	(15)	(8)	29	9	18
Purchase of index differentials*	1	0	(7)	0	(1)
Currency options	(9)	(5)	3	7	16
Forward	(3)	(2)	(2)	2	4
Total	11	1	(2,049)	(2)	(3)

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

Exposure to Market Risks and Risk Management (Cont.)

Sensitivity Analysis to Changes in the Market Factors (Consolidated) (Cont.)

<u>Sensitivity analysis to changes in exchange rates</u>: (Cont.)

	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%
EURO/USD					
Instrument Type					
Cash and cash equivalents	(5)	(2)	49	2	5
Short-term deposits and loans	(3)	(1)	26	1	3
Trade receivables	(20)	(10)	204	10	20
Other receivables and debit balances	(8)	(5)	84	5	9
Credit from banks and others	4	2	(38)	(2)	(4)
Trade and other payables	21	10	(211)	(10)	(21)
Other payables and credit balances	8	3	(76)	(3)	(8)
Long-term loans from banks	19	10	(199)	(10)	(19)
Currency options	(9)	(5)	10	6	12
Forward currency transactions	(49)	(26)	(6)	28	60
Total	(42)	(24)	157	27	57

	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%
£/USD					
Instrument Type					
Short-term deposits and loans	(1)	(1)	14	1	1
Trade receivables	(2)	(1)	18	1	2
Other receivables and debit balances	(1)	–	9	–	1
Trade and other payables	1	1	(11)	(1)	(1)
Other payables and credit balances	2	1	(21)	(1)	(2)
Forward transactions	2	1	–	(1)	(2)
Total	1	1	9	(1)	(1)

Exposure to Market Risks and Risk Management (Cont.)

Sensitivity Analysis to Changes in the Market Factors (Consolidated) (Cont.)

Sensitivity analysis to changes in exchange rates: (Cont.)

	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%
Yen/USD					
Instrument Type					
Trade receivables	(2)	(1)	22	1	2
Currency options	1	-	(1)	(1)	(1)
Forward currency transactions	1	1	–	(1)	(1)
Total	–	–	21	(1)	–

	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%
Chinese Yuan/USD					
Instrument Type					
Short-term deposits and loans	(1)	(1)	12	1	1
Trade receivables	(1)	–	9	–	1
Long-term deposits and loans	–	–	5	–	–
Trade and other payables	1	–	(6)	–	(1)
Total	(1)	(1)	20	1	1

Sensitivity analysis to changes marketable securities:

	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%
Marketable securities	36	18	360	(18)	(36)

Exposure to Market Risks and Risk Management (Cont.)

Sensitivity Analysis to Changes in the Market Factors (Consolidated) (Cont.)

Sensitivity analysis to changes in fuel prices (mainly in ORL)

	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					
Inventories	86	35	211	(35)	(86)
SWAP transactions hedging the refining margin	10	4	6	(4)	(10)
Future contracts on Brent oil	(81)	(33)	(17)	33	81
Floor options	7	3	(11)	(3)	(7)
Total	22	9	189	(9)	(22)

Risks applicable to investee companies

(These risks are managed by the investee companies independently and are reported to their separate Boards of Directors).

ICL

Some of ICL's products and some of its inputs are characterized by set prices, where ICL has only limited ability to influence such price. The ICL Group is exposed to price changes with respect to these products and inputs. Regarding the prices of the ICL's products, as detailed above, there are no hedging mechanisms.

The dollar is the primary currency of the economic environment in which most of the ICL Group companies operate. Most of the transactions – sales, material purchases, selling, marketing and financing expenses, as well as acquisition of the fixed assets – are effected in foreign currency, mainly the dollar and, accordingly, the dollar serves as ICL's measurement and reporting currency.

ICL has a number of subsidiaries overseas which operate independently–autonomously. The measurement currencies of these companies are the shekel, the euro and the British pound.

Some of ICL's sales in currencies other than the dollar expose ICL to changes in the exchange rate of these currencies vis-à-vis the dollar. Revenues and expenses of overseas subsidiaries operating independently–autonomously in a local currency other than the dollar, do not involve exposure while, on the other hand, revenues and expenses of these companies in dollars expose them to changes in the exchange rate of their local currencies vis-à-vis the dollar.

Measurement of ICL's exposure, as stated, is on the basis of the net revenues/expenses in every currency that is not the measurement currency of that company. The prices of certain transactions, even though they are not conducted in dollars, are affected by changes in the exchange rate of the dollar to the currency of the transaction and are adjusted to changes in the exchange rate within a short period of time.

Exposure to Market Risks and Risk Management (Cont.)

Risks applicable to investee companies (Cont.)

ICL (Cont.)

Some of ICL's inputs in Israel are denominated and paid in shekels and, therefore, ICL is exposed to declines in the shekel–dollar exchange rate (upward revaluation of the shekel). The exposure is essentially the same as the exposure described above, however, it is material in a larger scope than the other currency exposures.

The results of ICL and some of the Group companies are measured for tax purposes in a currency other than the dollar, e.g., in Israel – shekels adjusted to the Consumer Price Index, and abroad – in the respective local currency. As a result, ICL is exposed to the difference between the rate of change in the dollar exchange rate and the measurement basis for tax purposes.

Companies in the ICL Group have liabilities for employee severance pay that are denominated in local currency. In Israel, they are also affected by the increase in the Index. The Israeli ICL companies have funded amounts to partially cover their liabilities. These funded amounts are shekel denominated and are affected by the profits of the funds in which they are invested.

In addition, ICL has monetary assets and liabilities in currencies other than the dollar or which are not linked to the dollar that relate, respectively, to the local currency of the foreign autonomous companies. The differences between the assets and liabilities in the various currencies generate risk.

ICL has a number of foreign subsidiaries whose activities are independent–autonomous. The ending balance sheet balances of these companies are translated into dollars based on the dollar exchange rate at the end of the period in relation to the reporting currency of the aforesaid companies. The balance sheet balances at the beginning of the period as well as the capital changes during the period are translated into the dollar based on the exchange rate at the beginning of the period or at the time of the capital change, respectively. The differences stemming from the effect of the change in the exchange rate as between the dollar and the reporting currency of the companies create risk. The effects of the said exposure are recorded directly to shareholders' equity.

ICL has loans bearing variable rates of interest and, accordingly, there is exposure of the financial results (financing expenses) to changes in these rates. In respect of a portion of this exposure, ICL is protected by means of financial instruments, including derivatives.

For financial assets and financial liabilities in currencies that are not the functional currencies of the companies in the ICL Group, ICL's policy is to minimize this exposure as far as possible by the use of various hedging instruments.

ICL does not hedge against severance pay liabilities and the tax results of ICL, since the exposure is long term.

For hedging against the prices of heavy fuel, income and expenses in currencies which are not the functional currencies of the companies in the ICL Group and interest rate, the ICL's policy is to hedge in different rates, as follows:

Heavy oil prices:

Hedging is coordinated by the ICL Group's Energy Forum. The scope of the hedging is determined after consultation with energy experts in Israel and abroad. In the course of hedging energy prices, ICL takes into account the arrival of natural gas to its facilities in Sdom during the second half of 2009.

Exposure to Market Risks and Risk Management (Cont.)

Risks applicable to investee companies (Cont.)

ICL (Cont.)

Exchange rates:

ICL's Financing Committee (a forum made of up of the senior financial personnel and of the sectors) examines in every period the extent of the hedging implemented for each of the exposures described above, and decides on the required scope for the subsequent period. ICL uses for its hedging activity various financial instruments, including derivatives.

Interest rates:

The Financing Committee of ICL examines the extent of the hedging in order to adjust the structure of the actual interest to the ICL's expectations regarding interest-rate developments, taking into account the cost of the hedging. The hedging is implemented both by turning fixed interest rates into variable ones and vice versa.

The companies in the ICL Group monitor the scope of the exposure and the hedging rates for the various items on a current basis. The hedging policy for all types of exposures is discussed by ICL's Board of Directors as well as by the Boards of Directors of the Group companies as part of the annual budget. The Finance Committees of the ICL Group companies receive a report on a quarterly basis in the framework of the review of the quarterly results as part of the control over application this policy and for purposes of updating it, if necessary. The managements of the companies implement the policy set while taking into account the actual developments and the expectations in the various markets.

ICL uses derivative financial instruments (hedging instruments) for hedging purposes only. The hedging instruments eliminate the risks created to ICL, as described above. Therefore, ICL includes the financial results of the transactions hedging the existing assets and liabilities as well as firm commitments with the results of the hedged assets and liabilities. The financial results of the rest of the hedging transactions are recorded in the "financing expenses" category. ICL does not maintain detailed documentation regarding the designation of all the financial instruments.

Transactions in derivative financial instruments are made through banks. In ICL's opinion, no credit risk is anticipated with respect thereto. ICL does not demand or provide collaterals in respect of these derivatives.

ZIM

ZIM is engaged in the provision of global shipping services, where most of its revenues are denominated in U.S. dollars and some of its expenses are in different currencies. ZIM's functional currency is, then, the dollar.

Based on the nature of its activities, ZIM is exposed to market risks that relate to changes in the exchange rates of the currencies of the various countries in which it has activities.

In addition, ZIM is exposed to changes in the prices of heavy fuel oil. This exposure can generally be hedged in the short term.

Most of ZIM's liabilities are in dollars and, as such, ZIM is exposed to changes in the dollar interest rate (LIBOR).

ZIM believes that it is possible to hedge against most of the risks, excluding those relating to the demand for transport as a result of changes in the world economy.

Exposure to Market Risks and Risk Management (Cont.)

Risks applicable to investee companies (Cont.)

ZIM (Cont.)

As at the balance sheet date, the level of the debt bearing variable interest is 91% (before the impact of hedging transactions). ZIM summarizes the exposure to interest risks on a semi-annual basis and partially hedges the loans bearing variable interest by means of SWAP transactions and options. As a result of application of hedge accounting with respect to part of the interest transactions, ZIM recorded a negative capital reserve as at the balance sheet date in the amount of about $25 million, net of the tax effect.

ZIM monitors the currency exposure on an annual basis. In cases where there are significant operational changes, ZIM updates the exposure. The hedging activities focus only on currencies having significant economic exposure, and regarding which ZIM's management has decided to hedge. For purposes of managing currency risks, ZIM uses forward option and currency contracts, as well as SWAP transactions.

ZIM has entered into currency and interest rate SWAP transactions with Israeli banks for exchange of CPI-linked principal and interest payments in respect of debentures it has issued for dollar payments bearing variable and fixed interest.

ZIM monitors the exposure to changes in fuel prices on an annual basis. ZIM is in the practice of entering into SWAP and Collar transactions in order to hedge its cash flows against changes in fuel prices relating to fuel purchases, in the upcoming year, intended for the current operation of its shipping fleet, in the amount it determines from time to time. The company's policy detailed above is recorded in decisions of the Hedging Committee of the Board of Directors.

The Hedging Committee of the Board of Directors receives a detailed report of the risk management activities on a quarterly basis and holds discussions of the risks detailed therein. The person at ZIM who is responsible for management of market risks is the CFO.

ORL

ORL is exposed to changes in the prices of crude oil and its related products at the time of determination of the price of the crude oil it acquires which continues up to the time of fixing the sale prices of the products produced. Pursuant to its policy, ORL does not hedge the base inventory of raw materials (600,000 tons). ORL hedges the inventory of raw materials primarily by means of sale future contracts and fixes the future refining margins through use of SWAP transactions.

Due to the absence of sophisticated futures' markets suitable for their products, the group companies do not hedge the prices of their products.

ORL operates in the fuel and petrochemical markets which are dollar markets and, therefore, a significant part of its current assets and liabilities are in dollars or linked thereto and part of its long-term credit is in dollars.

ORL's policy is to hedge against exposure to changes in the currency exchange rates reflected in the current cash flows. ORL has financial and operating assets and liabilities denominated in shekels (deriving mainly from: salaries, payment to suppliers and contractors in Israel and payments to institutions, and part of its sales to customers is also denominated in shekels).

In order to reduce the exposure to changes in the exchange rates, ORL use financial instruments, both at the level of assets and liabilities as well as at the level of long-term liabilities.

Exposure To Market Risks And Risk Management (Cont.)

Risks applicable to investee companies (Cont.)

ORL (Cont.)

The Group companies have loans and liabilities bearing variable interest that is based on the Libor rate plus a bank margin. Changes in the variable interest rate are the source of this exposure. The Group companies make use of interest rate SWAPs (IRS) in order to lessen part of the aforesaid risk.

The Group companies make sales on credit to customers in and outside of Israel. In order to avoid risks stemming from this credit, the companies receive appropriate security in cases they consider to be risky and also sell their trade receivables in the framework of discounting arrangements.

The hedging transactions described above do not meet the hedging conditions provided in the international standards and, therefore, the said financial instruments are measured at fair value and the changes in their fair value are recorded in the statement of income.

Commencing from January 1, 2008, upon adoption of International Financial Reporting Standards (IFRS), ORL's functional currency was defined as the U.S. dollar. Accordingly, the exposures are measured between the changes in the dollar exchange rate and the rates of the other currencies in which it operates.

ORL's risk management polices are intended to be a tool for achieving its business targets by means of estimating the possible outcomes of the exposure and limitation thereof in accordance with criteria set by ORL's Board of Directors. Reporting and control with respect to implementation of the policies is made through committees of the Board of Directors. These criteria are based on evaluation of the risk taking into account forecasts regarding development of the prices.

Inkia

Inkia invests in companies engaged in construction and operation of power and electricity plants, mainly in South America. Inkia measures its transactions in dollars.

Market risk in connection with the production of electricity is the possibility of insolvency of the intermediate or final consumers. These risks are considered prior to entering into an undertaking with the intermediaries as well as during the course thereof, and steps are taken to increase the collaterals where necessary.

Inkia's policy is to finance the activities of its investee companies at the level of the companies themselves.

Most of the credit taken out by the companies is in dollars bearing variable interest. Inkia has executed SWAP transactions for exchanging liabilities in various currencies and bearing variable interest for a dollar liability bearing fixed interest. As a result of application of hedge accounting for part of the above-mentioned transactions, Inkia recorded a negative capital reserve as at the balance sheet in the amount of about $17 million less the tax effect.

Debentures

<u>Information regarding debentures issued by Israel Corporation</u>

Debenture series number	Original issuance date	Par value on issuance date	Par value outstanding	Book value $ millions	Accrued interest $ millions	Stock market value	Interest rate	Date of payment of principal interest	Trustee
No series	2/14/02	100	100	31	1.5		5.40%	4 annual payments beginning 1/31/09. Annual 1/31.	None
Series 2	1/22/04	200	200	59	2.9		5.30%	One payment on 1/22/09. Annual 1/22	Igud
Series 3	7/10/05 8/25/05	500 145	645	186	4.1		4.55%	4 annual payments beginning 7/10/10. Annual 7/10.	Igud
Series 4	7/17/06	650	650	181	4.4		5.35%	4 annual payments beginning 7/17/11. Semi-annual 1/17, 7/17.	Igud
Series 5	11/16/06 11/16/06	350 300	650	183	1.2		5.00%	4 annual payments beginning 11/16/10. Semi-annual 1/16, 5/16.	Hermatik
Series 6	3/12/07 4/16/07 6/05/07 1/22/08	853 50 334 500	1,737	492	6.8	468	4.55%	5 annual payments beginning 3/12/12. Semi-annual 3/12, 9/12.	Hermatik
Series 7	3/12/07 4/25/07 6/05/07	394 95 331	820	232	3.3	197	4.70%	5 annual payments beginning 3/12/17. Semi-annual 3/12, 9/12.	Clal
Series 8	1/22/08	350	350	92	0.0	95	6.80%	4 annual payments beginning 12/31/11. Semi-annual 6/30, 12/11.	

All the debentures are linked to the CPI except for Series 8.
The Corporation is in compliance with all the conditions of the debentures and the trust indentures.

<u>Details regarding trust companies</u>

Hermatik Trust (1975) Ltd., 113 Hayarkon St., Tel-Aviv, 63537, Tel. 03–5274867.
Clal Finances Trusts 2007 Ltd., 37 Menachem Begin Blvd, Tel-Aviv, 65220, Tel. 03–6274848.

Disclosure Regarding the Internal Auditor

The Group companies maintain an internal audit system in order to ensure maintenance of the requirements of law and proper business administration. The Corporation and the Group companies have audit committees and internal auditors and they conduct internal audits on a regular basis.

Set forth below are details regarding the Internal Auditor of the Corporation and of the headquarters companies:

Details concerning the Internal Auditor

A. Name of the Auditor: Shmuel Rosenblum, CPA.

B. Commencement Date of Service: June 2007.

C. Qualifications: The Internal Auditor is a licensed Certified Public Accountant (CPA), a partner in the CPA Firm Rosenblum and Holtzman, and is engaged in performance of internal audits for public and high-tech companies.

The Internal Auditor holds a Bachelor's degree in Accounting and Economics (BA), a Master's degree in Law (LL.M.), and a license as a Certified Internal Auditor (CIA) from the American Institute.

D. To the best of the Corporation's knowledge, the Internal Auditor complies with the provisions of Section 14(B) of the Companies Law, 1999, and the provisions of Section 8 of the Internal Audit Law.

E The Internal Auditor does not hold securities of the audited entity or of entities related thereto.

F. The Internal Auditor does not hold a position with the Corporation and he provides internal audit services. In the course of performance of his audit, the Internal Auditor is assisted by persons on his Firm's professional staff.

Manner of the Internal Auditor's Appointment

The Internal Auditor's appointment was approved by the Corporation's Board of Directors on June 20, 2007. Among the reasons for approval of the appointment: the appropriateness of his education for the nature of the position, his qualifications and extensive experience in connection with internal audits.

Party Responsible for the Internal Auditor

The organizational party responsible for the Internal Auditor is the Corporation's CEO, in coordination with the Chairman of the Board and with the Corporation's Audit Committee.

The Internal Auditor's Work Plan

The annual audit plan is determined by the Corporation's Audit Committee after taking into account, among others, the following considerations: experience gained in prior years, potential for efficiency and savings, risks latent in the Corporation's activities, regulation and standards applicable to the Corporation and points considered weak by the Corporation's Board of Directors, Management or the Internal Auditor on an ongoing basis – all of this taking into the fact that a holding company is involved and the main subsidiaries have their own internal auditors and Audit Committees operating in accordance with the standards.

Disclosure Regarding The Internal Auditor Of The Reporting Company (Cont.)

Audit of Investee Companies

As stated, the investee companies have separate internal auditors operating under separate Audit Committees. The Internal Auditor was appointed for I.C. Green Energy Ltd. for which an Audit Committee was appointed. A work plan for 2008 was approved together with the Internal Auditor after a single consultation, and the relevant audits were performed including audit of the investee company I.C. Green Energy Ltd.

In addition, the Internal Auditor held discussions with and performed general surveys in the subsidiaries, which as noted have their own audit committees, in order to verify compliance with an internal audit routine in the investee companies.

Scope of the Internal Auditor's Employment

The scope of the engagement of the Internal Auditor and his staff amounted to about 600 work hours in 2008 (including I.C. Green Energy Ltd. and Inkia). Management may expand the scope of work based on the circumstances.

Performance of the Auditor

Based on the notification of the Internal Auditor, the audit is performed in accordance with the requirements of the Internal Audit Law, the Companies Law, and international professional guidelines in the area of internal auditing.

Access to Information

The Internal Auditor has full, uninhibited and direct access to the information systems and financial data for purposes of the audit in accordance with Section 9 of the Internal Audit Law.

The Internal Auditor's Reports

The internal audit reports are submitted in writing and are discussed on a current basis with the Corporation's management and the CEO.

The dates on which the reports were submitted with respect to the Internal Auditor's findings are: September 4, 2008, September 7, 2008 and December 13, 2008 and January 13, 2009.

The dates on which the Internal Auditor's reports were discussed by the Audit Committee are: September 27, 2008, January 15, 2009 and March 12, 2009.

Board of Directors Evaluation of the Internal Auditor's Activities

In the estimation of the Corporation's Board of Directors and of the Audit Committee, the Internal Auditor's qualifications, education and staff, and the scope, nature and continuity of his activities and work plan are reasonable under the circumstances and are sufficient to achieve the Corporation's internal audit targets.

Adoption of International Financial Reporting Standards (IFRS)

In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29 – Adoption of International Financial Reporting Standards (IFRS). The Standard provides that companies subject to the provisions of the Israeli Securities Law, 1968 and that report in accordance therewith, are to prepare their financial statements pursuant to IFRS commencing with reporting periods beginning on January 1, 2008 (financial statements for the first quarter of 2008).

The statements for 2007 year were restated based on IFRS, as comparative data.

Upon the transition to reporting in accordance with the international reporting standards, the Corporation's functional currency was changed to the dollar.

The impact of the transition on the Corporation's financial position, results of operations and cash flows are detailed in Note 41 to the financial statements.

Disclosure Regarding the Approval Process of the Financial Statements

The Corporation's Board of Directors is responsible for the overall control of the Corporation. The Board of Directors consists of 12 members, 8 of which have accounting and financial expertise.

The Corporation's Board of Directors has appointed a Finance Committee, which discusses the financial statements, as well as the Report of the Board of Directors, together with the Corporation's senior management and its CEO, Mr. Nir Gilad, and its CFO, Mr. Avisar Paz. The Finance Committee has 5 members, one of which is an external director. All the members of the Finance Committee have accounting and financial expertise.

The Finance Committee examines the financial statements by means of a detailed presentation by the Corporation's CEO and CFO, along with the material issues in the financial report, including transactions not in the ordinary course of business, if any, the significant assessments and critical estimates applied in the financial statements, the reasonableness of the data, the accounting policies applied and the changes therein, plus a review of the financial standards and application of proper disclosure principles in the financial statements and the accompanying information. The Finance Committee also examines various aspects of the risk management and control, both those reflected in the financial statements (such as the report on financial risks), as well as those impacting the reliability of the financial statements. Where necessary, the Finance Committee requires that comprehensive surveys be presented to it in connection with matters having a material impact.

The Corporation's auditors relate to issues arising in the Committee's deliberations and, if applicable, they present the main findings revealed in the course of the review. Approval of the Corporation's financial statements involves a number of meetings, as needed: first, meetings are held by the Finance Committee several days prior to approval of the financial statements where an in-principle and in-depth discussion is conducted of the material reporting issues, and thereafter, shortly before the approval date of the statements by the Board of Directors, the Board holds a discussion focusing mainly on the results themselves. At these meetings of the Board of Directors the auditors are invited to participate. As a result of the discussions, after the Board of Directors is satisfied that the financial statements properly reflect the Corporation's financial position and the results of its operations, it approves the financial statements.

Critical Accounting Estimates

In preparation of financial statements in accordance with IFRS, the managements of the Group companies are required to make use of estimates that affect implementation of the policies with respect to the assets and liabilities and on the results of the said companies. It is clarified that the actual results may be different than these estimates.

Critical Accounting Estimates (Cont.)

When formulating the accounting estimates used in preparation of the companies' financial statements, the managements of the companies are required to make assumptions regarding circumstances and events involving significant uncertainty. When using its judgment in making the estimates, the managements of the companies base themselves on past experience, various facts, external factors and reasonable assumptions regarding the appropriate circumstances for each estimate.

The estimates and the assumptions used for preparing the financial statements are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period during which the estimate was revised and in every future period affected.

Liability for Employee Severance Pay

According to International Standard IAS 19, a part of the Group's employee benefit plans constitute a "defined benefit plan" as defined in IAS 19. Such plans include principally, commitments for pension and severance benefits.

In computing the pension liability, the Corporation uses various assessments. These assessments include, among others, the interest rate for discounting the Corporation's pension liability, the long-term return expected on the pension fund's assets, an estimate of the salary increases over the long run, and assessment of the life expectancy of the group of employees entitled to pension benefits. Assessment of the interest rate for purposes of discounting the Corporation's pension liability is based on the return on corporate bonds for companies operating in countries having an active market, and on the return on government bonds for companies in other countries not having an active market for corporate bonds. The rate of return on long-term bonds changes according to market conditions. As a result the discount rate will also change and, correspondingly, the pension liability as well. The assessment of the long-term return on the pension fund's assets is based on the expected long-term return of the asset portfolio, in accordance with the composition of the pension fund's assets. Changes in capital market conditions or in the composition of the pension fund's asset portfolio may bring about a change in the assessment of the return on the assets of the fund and accordingly a change in the pension fund. The assessment regarding the increase in wages is based on forecasts of the Corporation in accordance with its past experience and current labor agreements. In actual fact, such assessments may not match the actual wage increases. The life expectancy estimates are based on actuarial research published in the various countries. As a practical matter, every few years the research findings are updated and accordingly the life expectancy assessment may also be updated.

The measurement of liabilities in respect of severance benefits is based upon an actuarial assessment, which takes into account various assessments, among other, the future increase in employee wages and the rate of employee turnover. The measurement is made on the basis of discounting the expected future cash flows according to the interest rate of high-ranking government bonds. Moreover, the severance pay deposits are measured according to their fair value. Changes in the assumptions used to calculate the severance pay liabilities and plan assets may increase or decrease the net severance pay liability recognized.

Environmental protection and contingent liabilities

Some of the Group companies manufacture fertilizers and chemical products and, therefore, are exposed during the normal course of their business to liabilities and obligations due to the environmental protection laws together with other related laws. These Group companies invest substantial amounts in order to comply with the legal requirements. The companies record a liability in their books where such liability is probable and is capable of being estimated. Estimate of the liability is based mainly on past experience, familiarity with legal requirements in the companies' areas of activity, and estimates of the existing contingent liabilities based on opinions of legal advisors and other experts. As explained in Note 22, a number of legal claims have been filed against the companies, the results of which may have an effect on their results.

Critical Accounting Estimates (Cont.)

Environmental protection and contingent liabilities (Cont.)

When assessing the possible outcomes of legal claims that were filed against the companies, the companies relied on the opinions of their legal advisors. The said opinions of the legal advisors are based on the best of their professional judgment, and take into consideration the current stage of the proceedings and the legal experience accumulated with respect to the various matters. Since the results of the claims will ultimately be determined by the courts, such results may be different than the aforesaid estimates.

Property, plant and equipment

Property, plant and equipment are depreciated by the straight-line method, based on their estimated useful lives.

On the basis of the Group’s accumulated experience, the cost of the fully-depreciated assets still used in production is significant. In light of that stated above, the Group companies examined the useful lives of the fixed assets by making a comparison to the sector in which they operate, the level of maintenance of the facilities and the functioning of the facilities over the years. Based on the said examination, the remaining balance of depreciation period of the fixed assets is less than the balance of the anticipated useful lives of the facilities. On the basis of this evaluation, the Group decided to change the estimate of the useful lives of the production facilities. The change in estimate is based on the past experience accumulated by the Group and not on changes occurring in the assets or in the business environment. The prior estimate of the useful lives of the Group’s fixed assets was made in 2002. This estimate was also based on the cumulative past experience.

In order to determine the estimate of the remaining useful lives of the fixed assets, the Group companies relied on opinions received (mostly internal opinions and one opinion of an independent outside appraiser). The change in the estimate of the remaining useful lives of the fixed assets, which reflects an extension of the period, is executed through the depreciation in the financial statements prepared in accordance with IFRS, commencing from January 1, 2007.

Impairment of Assets

The Group companies examine on every balance sheet date whether there have been any events or changes in circumstances which would indicate impairment of one or more non-monetary assets. When there are indications of impairment, an examination is made as to whether the carrying amount of the investment can be recovered from the discounted cash flows anticipated to be derived from the asset, and if necessary, an impairment provision is recorded up to the amount of the recoverable value. Assessment of the impairment of goodwill and of other intangible assets having an indeterminable lifespan is performed once a year or when indicators for impairment exist.

The recoverable value of the assets is determined based on the higher of the fair value less selling costs of the asset and the present value of the future cash flows expected from the continued use of the asset, including the cash flows expected upon retiring the asset from service and its eventual sale (usage value).

The future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The estimates regarding cash flows are based on past experience with respect to this asset or similar assets, and on the Group’s best possible assessments regarding the economic conditions that will exist during the remaining useful life of the asset.

Critical Accounting Estimates (Cont.)

Business Combinations

The Group companies are required to make an allocation of the acquisition cost of companies and activities in the framework of business combinations and to allocate any excess cost created on the acquisition of associated companies on the basis of the estimated fair values of the assets and liabilities acquired. The Group uses valuations of external appraisers for purposes of determining the fair values. The valuations include Management's estimates and assessments regarding the projected future cash flows from the business and a choice of models for calculation of the fair values of the items acquired. Management's estimates regarding forecasted cash flows and the useful lives of the assets acquired may be different than the actual results.

Taxes on Income

Some of the Group companies are assessed for tax purposes in a number of different jurisdictions and, therefore, the managements of these companies are required to exercise significant judgment in order to determine the aggregate provision, including with respect to taxes and allocation of revenues. The deferred taxes are calculated based on the tax rates expected to be in effect at the time of realization of the temporary differences. The tax rate expected on the realization date of the temporary differences relating to the Benefited Enterprises in Israel are based on forecasts of the future revenues to be produced by the Benefited Enterprises to the total revenue of the said companies. Changes in these assumptions could give rise to significant change in the book values of the tax assets, the liabilities for tax and the results of operations.

Inventories

The inventory is measured in the financial statements at the lower of cost or net realization value. The net realization value is an estimate of the selling price in the ordinary course of business, less the estimated costs to complete the item and to execute the sale thereof to the extent they are known at the date of the financial statements. The selling price is estimated based on the anticipated selling price at the time of realization of the inventory, where a decline in the anticipated selling price could cause a decline in the value of the inventory on the books and in the results of operations, respectively. Raw materials are written down to realization value only where the finished products in which they are to be included are expected to be sold at an amount less than the cost. The realization value of raw materials is based on the realization values of the inventory of finished goods in which the raw materials incorporated. Where the replacement cost of the raw materials is the best available evidence of the realization value, measurement of the realization value of the raw materials is based on the said replacement cost.

Directors having Accounting And Financial Expertise

Pursuant to the Companies Law, a public company is required to determine the minimum appropriate number of directors having accounting and financial expertise, and to make disclosure of those directors serving the company which meet this requirement. The said directors may not fill another position in the company, and due to their education, experience and skills they must have a high level of expertise and understanding with respect to accounting, internal control and financial statement matters, which allows them an in-depth understanding of the company's financial statements and to stimulate a discussion regarding the manner of presentation of the financial data.

The Company's Board of Directors decided to fix this minimum number of directors at two directors.

As a practical matter, as at the date of the report, of the 12 members of the Board of Directors, 8 have accounting and financial expertise as defined in the directive.

Directors having Accounting And Financial Expertise (Cont.)

The Board of Directors believes that this minimum number allows it to comply with the obligations it bears in accordance with law and the incorporation documents, particularly with respect to its responsibility to examine the Company's financial position and to prepare and approve the financial statements.

In making this determination, the Board of Directors took into account the size of the Corporation, the complexity of its activities, the variety of risks to which it is exposed, and the control systems presently existing at the Corporation – both internal control and the audit performed by the independent auditors and the existence of Boards of Directors in the investee companies, wherein an expert and professional staff member, including an outside director, examines the activities of every company and ascertains that the company was given a proper description in the financial statements of the investee companies.

In evaluating the accounting and financial expertise of the directors, account was taken of, among other things, their education, management experience in public companies, number of years of service as directors in public companies and their knowledge and familiarity with the following matters: accounting and control issues which are typical of area in which the ICL Group operates, the role of the auditing CPA, the obligations imposed thereon and the reciprocal relationship between a reasonable director and the auditing CPA, financial-statement preparation processes pursuant to law and in accordance with the Corporation's policy, and the Corporation's presently existing system of internal control.

The Corporation's Board of Directors is of the opinion that, as at the date of the report, out of the ten members of its Board of Directors, eight directors have the accounting and financial expertise. Set forth below are concise details of the education of the directors.

Idan Ofer – Manager of companies in various areas, including, shipping and energy. Holder of a degree in economics and shipping as well as a business administration curriculum at the London Business School.

Zev Nehari – Senior Deputy CEO and substitute CEO of Bank Leumi, senior member of financial, accounting and capital market management, head of the financial and economics division. Certified Public Accountant.

Udi Angel – Serves as chairman of the shipping activities of the Ofer Brothers Group in Israel. Director of a number of private companies in Israel and worldwide. Holder of a degree in economics and accounting.

Moshe Widman – Serves as a director of a number of private and public companies. In the past Mr. Widman served as CEO and president of an industrial company as well Senior Assistant to the Accountant General in the Ministry of Finance. Holder of a degree in economics and a Master's degree in business administration.

Avi Levi – Serves as CEO of a number of companies in the Ofer Group, director of a number of public and private companies and in the past served as CFO of the Ofer Brothers Group. Certified Public Accountant. Holder of a degree in economics and accounting and is pursuing a degree in business administration.

Yair Sarusi – Representative of Morgan Stanley in Israel. Engaged in provision of business and financial consulting. CEO of Amdeal Holdings. Director of a number of a number of public companies. Holder of a degree in economics and political science.

Irit Issacson – Serves and served as a director on a number of boards of directors of public and private entities. Ms. Issacson served for many years in bank management positions, and holds a Bachelor's degree in economics and a Master's degree in performance studies.

Ron Moskovitch – Serves as a consultant in the Quantum Pacific Group. Holder of a Bachelor's degree in economics and accounting and a Master's degree in business administration

Independent Directors

As at the date of the report, the Corporation has not adopted the provision in its Articles of Association regarding a minimum number of independent directors, within the meaning of this term in Section 219(E) of the Companies Law, 1999.

Definition of Minor Transaction

The Corporation is pleased to note the types and characteristics of the transactions it views as minor transactions, while detailing the facts, reasons and explanations for its position:

A. **"Minor transaction in the Corporation" –** a transaction that is not "an extraordinary transaction" (within the meaning thereof in the Companies Law) with a controlling interest or a transaction wherein the controlling interest has a personal interest, provided the total amount of all the minor transactions in the Corporation (itself) with controlling interests in a calendar year is not more than 2% of the Corporation's shareholders' equity based on its latest consolidated financial statements and the amount any single minor transaction in a calendar year is not more than 1% of the Corporation's shareholders' equity based on its latest consolidated financial statements.

<u>Reasons and Explanations</u>

The transactions as stated are in the Corporation's ordinary course of business and are executed at market terms. Regarding the essence of the transactions – the amount of any single minor transaction, as stated, does not exceed 1% of the Corporation's shareholders' equity and the amount of all the minor transactions with controlling interests, as stated, does not exceed 2% of the Corporation's shareholders' equity. Therefore, the Corporation believes that the transactions are minor vis-à-vis the Corporation.

B. **"Minor transaction in a subsidiary (private) control by the Corporation" –** a transaction that is not "an extraordinary transaction" (within the meaning thereof in the Companies Law) with a controlling interest or a transaction wherein the controlling interest has a personal interest, provided the total amount of all the minor transactions in the subsidiary (itself) with controlling interests in a calendar year is not more than 2% of the Corporation's shareholders' equity based on its latest consolidated financial statements and the amount any single minor transaction in a calendar year is not more than 1% of the Corporation's shareholders' equity based on its latest consolidated financial statements.

<u>Reasons and Explanations</u>

The transactions as stated are in the subsidiary's ordinary course of business and are executed at market terms. Regarding the essence of the transactions – the amount of any single minor transaction, as stated, does not exceed 1% of the Corporation's shareholders' equity and the amount of all the minor transactions with controlling interests, as stated, does not exceed 2% of the Corporation's shareholders' equity. Therefore, the Corporation believes that the transactions are minor vis-à-vis the Corporation.

<u>General Comments</u>

The definition of a minor transaction, as stated, will apply, with the required changes, to transactions with interested parties as well.

The Corporation will detail and report (as applicable) only transactions that deviate from the definition of a "minor transaction" as stated.

It is clarified that the Corporation does not relate to transactions of public companies it holds since, among other things, they are companies that report themselves and it will report based on their reports, if and when such report is necessary in accordance with law.

Internal Enforcement Plans

The Corporation and some of the Group companies maintain internal enforcement systems in order to verify compliance with the relevant provisions of law. It was clarified to the managers of the companies and the holders of the appropriate positions in the Group companies, that as part of their management responsibility they must confirm compliance with the provisions of law with respect to the company that they serve. These matters are also examined on a regular basis by the managements and the boards of directors of the different companies. Among other things, internal enforcement plans were prepared and are in operation in the areas of restrictive business practices, securities laws and prevention of sexual harassment. In some of the companies, seminar days are held for the appropriate managers and employees in these areas and application of the provisions of law are checked on a regular basis, etc.

Auditor's Fees

Set forth below is detail of the fees to which the auditor is entitled for 2008 (in NIS millions):

	2008				
	Name of Auditor	**Number of Hours**	**Audit and Tax Services**	**Number of Hours**	**Other Services**
			$ millions		**$ millions**
The Corporation and the headquarters companies	KPMG	6,700	0.3	1,170	0.2
Subsidiaries:					
ZIM	KPMG	17,117	1.5	987	1.0
	PWC	1,853	0.3	496	0.1
	Other auditors	6,392	0.9	5,284	0.5
ICL Group	KPMG	50,055	6.4	9,973	2.1
ORL	KPMG	9,000	0.7	5,300	0.5

	2007				
	Name of Auditor	**Number of Hours**	**Audit and Tax Services**	**Number of Hours**	**Other Services**
			$ millions		**$ millions**
The Corporation and the headquarters companies	KPMG	3,800	0.3	1,700	0.2
Subsidiaries:					
ZIM	KPMG	16,200	1.2	3,000	0.5
	PWC	1,900	0.4	6,800	0.4
	Other auditors	7,200	0.9	300	0.1
ICL Group	KPMG	44,478	4.9	1,438	0.5
ORL	Fahne Kanne (plus KPMG commencing from November 2007)	9,068	0.6	4,511	0.3

Compensation of senior executives

In the estimation of the Corporation's Board of Directors, the remuneration paid to the Corporation's senior officers, for purposes of Regulation 21, as detailed in the Paragraph "Additional Details regarding the Entity" to this report, are appropriate, fair and reasonable taking into account the scope of the Corporation's activities and business, the tasks and extent of the responsibility of the senior officers and their contribution to advancement of the Corporation's activities and development of its business.

The Corporation's policy is to pay bonuses to its senior officers in accordance with the discretion and approval of the relevant corporate organs. In provision of the bonuses and determination of their size, the Corporation takes into account, among other things, its profits, financial results, compliance with the targets set in the Corporation's work plan and strategic plan, that which is customary for similar-sized companies, and the contribution of the senior officers to the activities of the Corporation and the companies it controls, development of their businesses and their business results. In the estimation of the Corporation's Board of Directors, the bonuses reflect the contribution of its senior officers to the Corporation, and the bonuses paid to them are reasonable.

It is noted that the salaries of Corporation's senior officers during 2009 was 10% less than the wages to which they are entitled (not including provisions and fringe benefits), as a result of their initiative to relinquish this amount up to the end of 2009, due to the worldwide economic events and the impact thereof on the Israeli economy.

Events Occurring during the Period of the Report and Thereafter

1. In January 2008, Mr. Nir Gilad was appointed as to serve as Chairman of ICL's Board of Directors.

2. In April 2008, Mr. Eli Goldschmidt was appointed as Deputy CEO of communications and regulation.

3. In May 2008, Mr. Zvi Itzkovitch ceased serving as a director of the Corporation.

4. In May 2008, Messrs. Ron Moskovitch and Ze'ev Nehari were appointed as directors of the Corporation.

5. In February 2009, Mr. Amir Elstein was appointed as a director of the Corporation.

6. Subsequent to the balance sheet date, ZIM's CEO, Mr. Doron Gudar, gave notice of the completion of his service. ZIM's Board of Directors decided to appoint Mr. Rafi Danieli in his place, who served as ZIM's deputy CEO and its CEO. Mr. Danieli's position as CEO will enter into effect after an appropriate and full overlap period is conducted with the exiting CEO.

7. Subsequent to the balance sheet date, Mr. Alon Raveh ceased serving as the deputy CEO of the Corporation's business development and strategy and was appointed to serve as ZIM's CFO.

8. In the year of account, 5,300 options for shares of the Corporation were issued by the trustee to 2 employees of a subsidiary (of which 5,000 options to an officer) (see Note 23 to the financial statements).

9. On June 24, 2008, ORL signed an agreement with Israel Petrochemicals Enterprises Ltd. (hereinafter – "IPE"), which was approved by the General Meeting of ORL's shareholders on August 13, 2008.

   Pursuant to the agreement, IPE committed to sell to ORL all the shares it owns in Carmel Olefins, constituting 50% of Carmel Olefins' issued share capital, such that following the acquisition ORL will hold all of Carmel Olefins' issued share capital. In consideration for the shares of Carmel Olefins acquired, ORL will issue ordinary shares to IPE, constituting (after the issuance and without dilution), 20.53% of ORL's issued share capital and its voting rights. In addition it was agreed that ORL will sell to IPE all the IPE shares it owns, constituting 12.29% of IPE's share capital, in consideration for $40 million.

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

9. (Cont.)

Pursuant to the agreement, IPE committed to sell to ORL all the shares it owns in Carmel Olefins, constituting 50% of Carmel Olefins' issued share capital, such that following the acquisition ORL will hold all of Carmel Olefins' issued share capital. In consideration for the shares of Carmel Olefins acquired, ORL will issue ordinary shares to IPE, constituting (after the issuance and without dilution), 20.53% of ORL's issued share capital and its voting rights. In addition it was agreed that ORL will sell to IPE all the IPE shares it owns, constituting 12.29% of IPE's share capital, in consideration for $40 million.

On December 31, 2008, the agreement for acquisition of Carmel Olefins expired, without all the preconditions provided therein having been met and, therefore, the transaction was not closed.

Nonetheless, since the main reasons forming the basis of the decision of ORL's Board of Directors to approve the merger of Carmel Olefins' activities with ORL are still valid today, ORL and IPE agreed to continue their joint cooperation with the goal of trying to complete the merger transaction, and to the extent it is completed, the matter will be brought before ORL's competent authorities.

10. In January 2009, ORL and Gadiv received from the Ministry of the Environment a warning and summons to a hearing relating to violations and apparent defective application of the provisions of the Personal Order ("the Warning"). The Warning described the apparent violations which referred to, inter alia, the time tables set forth in the Order, the results of the smokestack samples, the submission of certain plans as required in the Order and the manner of submission of information to the Ministry, as stipulated in the Order.

Prior to the date of the hearing, ORL and Gadiv submitted their response to the warning they received, in which they detailed their arguments and responses to the issues included in the warning. At the conclusion of the hearing, goals and timetables were set for actions to be taken by ORL and Gadiv for the purpose of reducing the pollution at its facilities. ORL and Gadiv are preparing to implement the mandatory actions under the Personal Orders and are holding talks with the Ministry of Environmental Protection regarding additional actions stipulated by the Ministry.

On January 25, 2009, a hearing was held at the Ministry of Environmental Protection for ORL and PEI regarding two specific sites located in the pipeline corridor in the section adjacent to the refinery wherein, according to the Ministry, soil and groundwater were contaminated by fuel products. After the hearing, ORL and PEI were required to close the two pipelines along which leakage was found; to return them to operation following repair and/or replacement; to test impermeability of all the pipelines and to submit the results to the Ministry of Environmental Protection. During the hearing, it was clarified to ORL and PEI that if the repair and rehabilitation process does not commence within seven days after the hearing, including the removal of the contaminated soil, the Ministry would issue an order for cleanup and removal of the toxic substances. The Ministry gave notice that the Green Police of the Ministry of Environmental Protection would investigate the events, including the failure of the companies to act to minimize damage and prevent further contamination of the river and its environs.

On March, 1, 2009, ORL received a removal order for toxic substances, pursuant to section 16(A) of the Hazardous Substances Law, 1993 and a clean-up order, pursuant to section 13(B) of the Maintenance of Cleanliness Law, 1984, requiring that ORL, PEI and their CEOs submit plans to the Ministry of Environmental Protection for soil gas, soil and groundwater surveys and to fence off the contaminated areas and to conduct the survey in accordance with the approved plans. The parties are further required to submit to the Ministry a report of the survey findings, including recommendations for the clean-up and rehabilitation of the contaminated soil and groundwater and the restoration of the river and its banks to their former condition, based on the findings of the survey. The parties will also define a short-term and binding timetable for implementing the recommendations of the survey, until all waste and toxins are removed from the soil and groundwater.

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

10. (Cont.)

ORL has submitted its plan for the soil gas, soil and groundwater survey to the Ministry of Environmental Protection for approval.

As of the approval date of the report, ORL is unable to assess the outcome of the survey, the actions required according to the outcome and the expenses ORL will incur when implementing these measures, if any.

In the beginning of 2009, ORL and EAPC were required, under the terms added to their business licenses, to conduct soil surveys along the pipeline corridor connecting the Haifa refinery to the fuel port wherein, among other things, the pipelines used by ORL and EAPC are located and to apply the survey recommendations according to the suggested timetable approved by the Ministry of Environmental Protection. ORL appealed this condition in its business license through the procedure set up by the law.

11. In March 2008, an agreement was signed between a wholly owned subsidiary of ICL (guaranteed by ICL) and the partners in the Yam Tathys Group, for provision of natural gas to factories in the ICL Group Israel.

The total quantity of gas the ICL Group committed to buy from the partners in the Yam Tathys Group is approximately 2 BCM (about 2 billion cubic meters), subject to adjustments as detailed in the agreement.

Supply of the gas is to commence upon completion of the pipeline transporting the gas from the South. As at the date of the report, based on the timetables provided by the transport company, Israel Natural Gas Lines Ltd., completion of the pipeline and the resulting conversion to operation based on gas of the ICL Group's production facilities in Sdom (wherein most of the gas consumption by the ICL Group is expected to take place) will take place towards the end of the first quarter of 2009. Supply of the gas will come to an end on the earlier of the following:

(1) A period of five years from the end of the running-in period, however not later than September 2015 (subject to extension as detailed below).

(2) Acquisition of the full amount of the gas as per the agreement.

The period described in subsection (1) will be automatically extended by an additional year if up to that date the full amount of the gas as per the agreement had not been consumed. In addition, the partners in the Yam Tathys Group have an option to extend the said period by an additional two years, until the full amount of the gas as per the agreement is consumed, all in accordance with the conditions stated in the agreement.

The price of the gas will be determined according to a formula that is based on the price of crude oil, with a discount component including "floor" and "ceiling" prices. The ICL Group committed to "take or pay for" an annual minimum quantity of gas as stated in the agreement and in accordance with a mechanism set forth therein.

Conversion from fuel to the use of gas will permit the ICL Group to reduce the emissions from its production vents and it is consistent with the ICL Group's policies of preserving natural resources and realizing savings.

The agreement includes a number of preconditions, the main ones of which being receipt of the permits required for establishment of the gas connection facilities and signing of a gas transport contract with Israel Natural Gas Lines Ltd.

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

12. The Corporation's Audit Committee and Board of Directors approved entry into negotiations with Ofer (Energy Holdings) Ltd. (hereinafter – "Ofer Energy"), a company owned by companies related to the Corporation's controlling interests, in connection with acquisition of 80% of the shares of OPC Rotem Ltd. (hereinafter – "OPC") from Ofer Energy. OPC is preparing to sign an agreement with Israel Electric Company Ltd. for construction of a power station in Rotem's zone. Ofer Energy has indicated that it is carrying on negotiations with Delkia Israel Ltd. (hereinafter – "Delkia") aimed at joining Delkia as an additional partner in the said project. The undertaking is contingent on performance of a due diligence examination.

13. On July 20, 2008, a claim was filed against the Corporation, Quantum, Chery Automobile Co. Ltd. (hereinafter – "Chery") and individuals related to Chery, and against Cherry Quantum Auto Co. Ltd., a joint venture owned by Chery and Quantum. The claim was filed in Michigan in the United States by a U.S. company, V Cars LLC (formerly Visionary Vehicles) (hereinafter – "the Plaintiff"), which contended that it conducted negotiations with Chery for establishment of a joint venture for production of vehicles in China and distribution thereof in the United States. The contentions against the Corporation and Quantum include claims regarding use of confidential information that was provided to the Corporation by the Plaintiff, non-fulfillment of promises and breach of fiduciary obligations vis-à-vis the Plaintiff and making of a connection with Chery to prevent the Plaintiff's participation in the production, export, distribution and sale of Chery's cars in the United States. The Plaintiff claims losses in the amount of about $26 million, allegedly caused to it, as well as a loss of future earnings from its anticipated share in the venture in the amount of about $14 billion during the 30 years the venture was expected to be in operation. The Plaintiff is requesting an injunctive order to protect the exclusive distribution franchise in the United States it was allegedly granted. In addition, the Plaintiff is requesting a reimbursement of legal expenses along with other legal remedies. On December 2, 2008 the Corporation and Quantum filed a request for cancellation of the claim due lack of jurisdiction of Michigan court to hear the matter. On January 23, 2009, the Plaintiff filed a response to the request and on February 13, 2009, the Corporation and Quantum submitted a reply to the response. On March 18, 2009, a hearing was held in the Michigan court wherein the court accepted the request of the Corporation and Quantum to cancel the claim and on March 20, 2009 an Order was issued formally recording the court's aforesaid decision. The Plaintiff is permitted to file an appeal of the court's decision up to April 20, 2009, and the Plaintiff is permitted to attempt to file the claim in a different jurisdiction. The Corporation's legal advisors believe that if an appeal of the court's decision is filed, its chances of being accepted are not high in light of the fact that the judge decided the request after he heard and considered the contentions of the parties. Regarding the possibility that the claim will be filed in another jurisdiction, the Corporation's legal advisors note that at this stage it is not possible to assess the Plaintiff's chances of finding a basis for jurisdictional authority for filing the claim against the Corporation and Quantum in another jurisdiction in the United States. It is noted that the claim remains as it was with respect to the other defendants. It is further noted that as part of the joint venture agreement between Chery and Quantum, indemnification provisions were determined between the parties regarding damages arising as a result of legal proceedings taken by the Plaintiff.

14. In July 2008, charges were filed in the Magistrate's Court of Be'er Sheva against a second-tier subsidiary in the ICL Industrial Products Group and three of its officers. The second-tier subsidiary is charged with violating the terms of the company's business license and causing unreasonable air pollution in connection with four occurrences in 2004 wherein samples taken in the factory's exhaust vent and the surrounding area indicated, according to the State, non-conformance with the second-tier subsidiary's business license. The second-tier subsidiary, based on its legal advisors, believes that there is no basis for the charges and that it acted properly.

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

15. On July 31, 2008, the Clean Air Law, 2008 was enacted, for regulating the treatment and supervision of air pollution in Israel. The provisions of this law that are relevant to ICL will apply gradually, some from 2011 and some from 2014. Many of the provisions of the law will be governed by regulations that have not yet been promulgated and are expected by 2010. The companies are continuing their preparations for the application of the provisions of the law.

16. On August 24, 2008, the Corporation's Board of Directors decided to distribute a dividend in the amount of $50 million, which was paid on September 23, 2008.

17. On September 3, 2008, the Board of Directors of ICL resolved to grant ICL approval to buy-back, from time to time, by itself and/or by a subsidiary, ordinary shares of ICL in an amount up to 5% of ICL's issued and paid-up capital, out of ICL's distributable earnings, as defined in the Companies Law, 1999. The buy-back may be implemented during a period commencing from the date of the resolution and up to June 30, 2009, and may be made on or off the stock exchange. The said resolution does not bind ICL to acquire all or any part of the shares. The purchases will be made pursuant to the legal limitations and ICL's internal compliance plan for securities as well as in accordance with instructions provided from time to time by the ad hoc committee of the Board of Directors appointed for the matter – all within the framework of the aforesaid decision.

    Commencing from September 2008, ICL has purchased 21,543,885 ICL shares, constituting about 1.7% of ICL's issued and paid-up share capital (the Corporation's share is about 0.85%). Subsequent to the balance sheet date, ICL purchased an additional 824,457 additional shares about 0.07% of ICL's shares. The share acquired a "dormant shares" within the meaning of this term in Section 308 of the Companies Law.

18. In December 2008, ICL received notification from Volkswagen, which holds 35% of the share capital of the subsidiary Dead Sea Magnesium Ltd., whereby Volkswagen requests, pursuant to the joint venture agreement signed between the parties in 1996, to sell its shares in Magnesium to ICL.

    ICL rejected the notification since, among other things, in ICL's opinion Volkswagen is not entitled to exercise the transfer right at this time and it continues to be obligated to fulfill its commitments to Magnesium, the banks and third parties.

19. Subsequent to the balance sheet date, in February 2009, the Board of Directors of Chery Quantum Auto Co. (hereinafter – "the Joint Venture") adopted an updated business plan for the Joint Venture whereby the Joint Venture is expected to concentrate already in this stage on development and preparation for production – both of a regular motorized vehicle and of electric-powered vehicles. The Joint Venture's business plan was adapted for the main changes in the global automotive industry, while increasing the weight and importance of the electric-powered vehicle and its integration as part of the Joint Venture. The Joint Venture's cash requirements for 2009 and 2010 were updated in light of the changes in the said business plan. Set forth below are the highlights of the decisions made regarding change of the Joint Venture's capital structure, which were approved by the Joint Venture's Board of Directors and also received the approval of the Board of Directors of Israel Corporation:

    A. Change of the structure of the holdings in the Joint Venture's capital – the rate of holdings of the parties in the Joint Venture's capital will change such that the parties will hold the Joint Venture in equal shares, as follows: Quantum a 100% subsidiary of the Corporation – will hold 50% of the Joint Venture's capital (in place of 45% that it presently holds); Wuhu Chery Automobile Investment Co. will hold 50% through a wholly owned subsidiary (in place of 55% that it presently holds).

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

19. (Cont.)

    B. Reduction of the number of models being developed and deferral of the need to set up a designated plant while relying on Chery's (the partner in the Joint Venture) current production capacity, resulted in the investment requirements of the parties in the Joint Venture being reduced in the present stage from about $900 million to an aggregate amount of about $500 million with no need for the parties to the Joint Venture to provide additional guarantees. It is noted that as a result of the updated agreements, Quantum will not be required to provide its share in the guarantees, in the amount of about $180 million as was originally agreed at the time the Joint Venture was set up. (It is further pointed out that the required amounts are denominated in the Chinese currency (RMB) and are presented in this report in dollar approximates).

    C. Quantum will not be required invest an additional amount during 2009 and 2010 in excess of the amount of about US$200 million that was already invested by it in the Joint Venture in the past. Investment of an additional about US$40 million, if and to the extent there will be a need for it pursuant to the Joint Venture's business plan, will be possible at the earliest in 2011.

    The above-mentioned decisions were recorded in a shareholders' agreement that is to be signed between the parties to the Joint Venture, wherein it will be provided that the Joint Venture's Articles of Association and the Joint Venture agreement will be amended to reflect the said decisions including any change deriving therefrom, and that after their revision these documents will be submitted for approval by the relevant authorities in China.

20. Subsequent to the balance sheet date, in February 2009, the Federal Financial Supervisor Authority, an entity that is comparable to the Securities Authority in Germany, approved I.C. Green Energy Ltd.'s (hereinafter – "I.C. Green") request to receive an exemption from making a tender offer in connection with Petrotech's shares. The said exemption is contingent on I.C. Green providing to Petrotech, on the dates provided, amounts that I.C. Green itself offered to make available Petrotech, as shareholders' equity, long-term loans and guarantees, in the amount of about €15 million – in order to advance Petrotech's business activities and as part of implementation of the plan of reorganization.

    Petrotech is a company whose shares are traded on the stock in Germany, and that is engaged in the production, marketing, and sale of bio-diesel, which is based mainly on recycling of used food oil, and which owns two plants in Germany. On December 4, 2008, I.C. Green, a company wholly owned by the Corporation, acquired about 43% of the shares of Petrotech for a consideration of about €12.3 million. As a result of this acquisition, I.C. Green submitted a request to the Securities Authority in Germany, to receive an exemption from making a tender offer to the public in order to make an investment of shareholders' equity, long-term loans and guarantees in Petrotech – a request that received an affirmative response. As at the date of this report, I.C. Green transferred about €6.3 million to Petrotech by means of loans, where the amount already invested by I.C. Green, as stated, will be considered as part of the required investment in accordance with the conditions of the exemption, as stated above.

21. Regarding the Corporation's investment in ZIM – see the Section on ZIM.

22. Regarding the Corporation's investment in Tower – see the Section on Tower.

Community Involvement of the Israel Corporation and its Subsidiaries

General

The total contributions made by the Group during the year of account amounted to NIS 30.8 million.

The Group contributed both cash and value items to various organizations and amutot (societies) including: hospitals, mainly Soroka Hospital in the Negev, "Life" Society providing assistance to children suffering from cancer and their families, assistance to needy families on the festival days, "Inbal" – a support center for children suffering from sexual attacks, "Maslin", an organization that accompanies the rehabilitation of women that experienced violence and sexual attacks, Al-Sam in Be"er Sheva, "Nitzan" for advancement of learning disabilities, "a Step Forward" and others. In 2008, there was an increase in the support of Bedouin settlements in the south and, among others, a strengthening of youth and students, advancement of environmental protection, recycling of waste and treatment of handicapped persons.

The Group companies also assisted various projects for preservation of natural sites, preparation of outing journey trails, and preservation of birds and eagles with the assistance of the Company for Preservation of Nature and the National Parks Authority.

Project for Adoption of Network of Care Centers for Children at Risk

The boards of directors of the Corporation, the ICL Group, Tower and ZIM, formulated a focused and significant strategic plan for deepening its community activities and for being a leader in the area of social and community involvement. The plan was embedded in the strategies of the companies as well as in their current business activities.

In 2001, the boards of directors of the Group companies approved a nationwide flagship project, with a common denominator for all the companies, aimed at developing the country's human resources, this being the adoption of a network of care centers for children and youths at risk between the ages of 6 and 17, as well as for young girls in distress.

At end of 2005, the boards of directors of the companies approved continuation of the project for an additional 5 years and increased the budget by about 40% in order to respond to the continuous increase in the number of care centers over the years, which serves hundreds of children.

The Group provides assistance in developing the care centers in the State's southern and northern regions, both in a material sense (e.g., money and equipment) as well as by strengthening the connection with employees and retirees of the Group who accompany the activities of the centers in the northern and southern parts of the country.

A care center is essentially a treatment framework and represents a model for a normal household and a proper family, and is intended for children at risk between the ages of 6 and 17. The children who participate in the care centers are deemed to be youths at risk, whose parents are incapable of taking care of them during the day, for a variety of reasons, such as a difficult economic situation, violence, neglect, dysfunction, etc.

The centers are intended to provide the children with what they are lacking due to the distress and abandonment they live with and, as a practical matter, to provide a "supplement" to their homes during the afternoon and evening hours, in order to ease their adaptation to their school requirements and prevent them from slipping into the society's marginal elements and their placement into foster institutions.

The centers attempt to provide the children with tools in order that they may realize their latent potential, academic tools, institutional norms and intellectual challenges, so that they will be able to integrate into the educational system.

Community Involvement of the Israel Corporation and its Subsidiaries (Cont.)

Project for Adoption of Network of Care Centers for Children at Risk (Cont.)

The children receive hot meals, professional treatment and warm relationships from the centers, although they do not receive enrichment activities mainly due to budget constraints.

The Group helps the care centers in two ways – physical/monetary and support – that is involvement and accompaniment through the Group's employees and retirees. The Group assists by means of both the purchase of equipment, such as, computers, typing equipment, televisions, video equipment, advice books and novels, ovens, kitchen equipment, magazines, carpets tables and chairs, etc., as well as through support, such as, Group accompaniment by its employees, diversified activities, for example, education tours for children, enrichment through computers, integration in activities with the children of the factory employees, realization of individual requests of the children, like, train trips, seeing movies, reinforcement and expansion of the contents of the children's lives.

The care centers chosen are in the development cities, in regions wherein the Group's factories are located, since the economic and social problems there are very severe, this being with the goal of helping to achieve social and economic equality in these cities.

At the present time, there are activities throughout the country in 64 care centers in Israel: Arad, Beer-Sheva, Dimona, Yeroham, Kiryat Ata, Haifa, Migdal Haemek and others.

The Drugs Fund of the Israel Corporation Group for Health in Israel

The Drugs Fund of the Israel Corporation Group for Health in Israel (founded by Mr. Sami Ofer, the Corporation, ICL and ZIM). In 2005, the Group allocated NIS 35 million for financing necessary drugs not included in the list of government subsidized drugs. Of the above-mentioned amount, the contribution of Mr. Sami Ofer was NIS 5 million. In 2008, the Group transferred the amount of NIS 12 million (including the Ofer Group).

"Password for Every Student" Project

In 2007, the Group joined the "Password for Every Student" project, which is led and financed by the Ofer Group. In the framework of the project, schools in development cities are connected to the computer network, networks of users are created at the classroom, grade, school and community levels and every student is permitted to use the designated network including its educational data bases and information.

Through use of a user name and a password that every student and every teacher receives, he can access the system from any computer or terminal connected to the Internet – in the school, recreation center, home or from a friend's computer – and is always found in the same work environment wherein all his school courses are found. The system permits communications between all the students and teachers in the class, from the school, from the community in which he resides and from other communities throughout Israel that are connected to the "Password for Every Student" system.

About 23,400 parties are connected to the project in 58 schools and 10 communities.

ICL leads the project in Dimona, which includes about 7,000 students in 14 schools.

Tower leads the project in Migdal HaEmek, which includes about 3,200 students in 7 schools.

The total amount invested in the year of account is abut NIS 4.3 million.

Community Involvement of the Israel Corporation and its Subsidiaries (Cont.)

Establishment of Recreational Centers in Hospitals

The Corporation together with Variety Israel decided to enter into a project for establishment of recreational centers and activity rooms in a number of hospitals in Israel. The purpose of the project is to assist sick children who are forced to stay in the hospitals for short or extended periods of time, by means of setting up libraries, movie rooms for children, music sections, game rooms, etc.

In addition to financial assistance in the amount of NIS 15 million for 3 years, the project will also include volunteer assistance provided by the Group's employees.

The Group companies are converting the festival gifts (The New Year and Passover) that had customarily been sent to members and outside parties, to hundreds of food packages and gift certificates and are giving them as a contribution to needy families in the development cities, along with packages of candies and sweets for cancer stricken children who are hospitalized and also treated in daytime treatment programs in hospitals.

ADDITIONAL INFORMATION INCLUDED IN THE AUDITORS' REVIEW REPORT

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

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

1. That stated in Notes 22.B.2.a.2.b and 22.B.2.b.2–7, regarding claims filed against subsidiaries, in connection with legal proceedings, supervision of the controlling authorities, other contingent claims, laws and proposed laws relating to the fuel and gas sectors and the infrastructure facilities. The managements of the subsidiaries, based on opinions of their legal advisors, are unable to estimate the amount of the exposure, if any, and therefore no provision has been included in the financial statements.

2. That stated in Note 22.C.4, regarding the dependency of a subsidiary on the receipt of services from infrastructure companies.

3. That stated in Note 22.E.3.c, whereby as at December 31, 2008, a subsidiary has received waivers from compliance with the original financial covenants and has to negotiate with the lenders to amend the financial covenants and/or to postpone the compliance dates of the covenants.

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.

Idan Ofer **Chairman of the Board of Directors**	**Nir Gilad** **CEO**

March 30, 2009

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Auditors' Report to the Shareholders of Israel Corporation Ltd.

We have audited the accompanying consolidated balance sheets of Israel Corporation Ltd. (hereinafter – "the Corporation"), as at December 31, 2008 and 2007, and the consolidated statements of income, the consolidated statements of recognized income and expenses and the consolidated statements of cash flows for each of the years ended on those dates. These financial statements are the responsibility of the Corporation's Board of Directors and its Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of subsidiaries and proportionately consolidated companies, whose assets included in the consolidation constitute about 9.8% and about 11.0% of the total consolidated assets as at December 31, 2008 and 2007, respectively, and whose revenues included in the consolidation constitute about 4.9% and about 6.3% of the total consolidated revenues for the years ended December 31, 2008 and 2007, respectively. In addition, we did not audit the financial statements of associated companies, the investment in which totaled about $80 million and about $56 million as at December 31, 2008 and 2007, respectively, and the Group's share in their losses was about $12 million and about $32 million, for the years ended December 31, 2008 and 2007, respectively. The financial statements of those companies were audited by other auditors whose reports thereon were furnished to us and our opinion, insofar as it relates to amounts included in respect of those such companies, is based on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors' Regulations (Manner of Auditor's Performance), 1973. Such standards require that we plan and perform the audits to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Corporation's Board of Directors and by its Management, as well as evaluating the overall financial-statement presentation. We believe that our audits and the reports of the other auditors provide a fair basis for our opinion.

In our opinion, based on our audits and on the reports of other auditors, as stated above, the above-mentioned financial statements present fairly, in all material respects, the consolidated financial position, as at December 31, 2008 and 2007, and the consolidated results of operations and the consolidated cash flows for each of the years ended on those dates, in conformity with International Financial Reporting Standards (IFRS) and the provisions of the Securities Regulations (Preparation of Annual Financial Statements), 1993.

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

1. That stated in Notes 22.B.2.a.2.b and 22.B.2.b.2–7, regarding claims filed against subsidiaries, in connection with legal proceedings, supervision of the controlling authorities, other contingent claims, laws and proposed laws relating to the fuel and gas sectors and the infrastructure facilities. The managements of the subsidiaries, based on opinions of their legal advisors, are unable to estimate the amount of the exposure, if any, and therefore no provision has been included in the financial statements.

2. That stated in Note 22.C.4, regarding the dependency of a subsidiary on the receipt of services from infrastructure companies.

3. That stated in Note 22.E.3.c, whereby as at December 31, 2008, a subsidiary has received waivers from compliance with the original financial covenants and has to negotiate with the lenders to amend the financial covenants and/or to postpone the compliance dates of the covenants.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 30, 2009

Consolidated Balance Sheets

	Note	As at December 31 2008 $ millions	*2007 $ millions
Current assets			
Cash and cash equivalents	5	**769**	519
Securities held for trade	6	**367**	443
Short-term investments, deposits and loans	7	**245**	86
Trade receivables	8	**1,630**	1,765
Other receivables and debit balances, including derivative instruments	9	**570**	407
Income tax receivable		**213**	32
Inventories	10	**1,908**	2,064
Total current assets		**5,702**	5,316
Non-current assets			
Investments in associated companies	11	**626**	644
Investments in other companies	13	**44**	36
Long-term deposits, loans and other debit balances including derivative instruments	14	**432**	278
Deferred taxes, net	32	**82**	33
Non-current inventories	10	**51**	31
Property, plant and equipment	15	**6,858**	6,517
Intangible assets	16	**911**	741
Total non-current assets		**9,004**	8,280
Total assets		**14,706**	13,596

* Reclassified.

Idan Ofer	**Nir Gilad**	**Avisar Paz**
Chairman of the Board of Directors	CEO	CFO

Date of approval of the financial statements: March 30, 2009

The notes and the attached appendices are an integral part of the financial statements.

	Note	As at December 31 2008 $ millions	As at December 31 *2007 $ millions
Current liabilities			
Credit from banks and others	17	**1,517**	1,402
Trade payables	18	**997**	1,321
Provisions	20	**60**	69
Other payables and credit balances, including derivative instruments	19	**1,004**	637
Income tax payable		**55**	81
Total current liabilities		**3,633**	3,510
Non-current liabilities			
Loans from banks and others	17	**3,415**	2,940
Debentures	17	**2,741**	2,390
Provisions	20	**63**	36
Deferred taxes, net	32	**622**	814
Employee benefits	21	**576**	522
Total long-term liabilities		**7,417**	6,702
Total liabilities		**11,050**	10,212
Equity	24		
Share capital and premium		**273**	273
Capital reserves		**(26)**	57
Retained earnings		**1,380**	1,147
Total equity attributable to the Corporation's equity holders		**1,627**	1,477
Minority interest		**2,029**	1,907
Total equity		**3,656**	3,384
Total liabilities and equity		**14,706**	13,596

* Reclassified.

The notes and the attached appendices are an integral part of the financial statements.

Consolidated Statements of Income

	Note	For the year ended December 31 2008 $ millions	*2007 $ millions
Revenues	25	**19,802**	10,910
Cost of sales	26	**16,532**	9,065
Gross profit		**3,270**	1,845
Research and development expenses	27	**64**	39
Selling, transport and marketing expenses	28	**785**	600
Administrative and general expenses	29	**536**	376
Other expenses	30	**146**	21
Other income	30	**(131)**	(53)
Operating income		**1,870**	862
Financing expenses	31	**740**	516
Financing income	31	**(107)**	(170)
Financing expenses, net		**633**	346
Share in losses of associated companies, net	11	**(45)**	(23)
Income before taxes on income		**1,192**	493
Taxes on income	32	**22**	120
Income for the year		**1,170**	373
Allocated to:			
The holders of the Corporation’s equity rights		**320**	113
Minority interest		**850**	260
Income for the year		**1,170**	373
Earnings per share attributable to holders of the Corporation’s equity rights:	33		
Basic earnings per share (in dollars)		**42.53**	15.43
Fully diluted earnings per share (in dollars)		**41.96**	15.24

* Reclassified.

The notes and the attached appendices are an integral part of the financial statements.

Consolidated Statements of Recognized Income and Expenses

	For the year ended December 31	
	2008	2007
	$ millions	$ millions
Foreign currency translation differences in respect of foreign activities	**(87)**	85
Actuarial gains (losses), net, from defined benefit plans	**(93)**	24
Income from negative goodwill created upon acquisition of subsidiary and equity income from the acquisition date	**–**	60
Comprehensive expense from investment in associated company	**(16)**	–
Effective portion of the change in fair value of cash flow hedges	**(47)**	–
Net change in fair value of financial assets available for sale	**(2)**	–
Net change in fair value of financial assets available for sale transferred to the statement of income	**2**	–
Net change in fair value of cash flow hedges transferred to the statement of income	**1**	–
Income taxes in respect of revenues and expenses recorded directly to equity	**27**	1
Total other income (expense) for the year, net of tax	**(215)**	170
Income for the year	**1,170**	373
Total income for the year	**955**	543
Attributable to:		
Holders of the Corporation's equity rights	**189**	235
Minority interest	**766**	373
Total income for the year	**955**	543

The notes and the attached appendices are an integral part of the financial statements.

Consolidated Statements of Cash Flows

	For the year ended December 31	
	2008	*2007
	$ millions	$ millions
Cash flows from operating activities		
Net income for the year	**1,170**	373
Adjustments:		
Depreciation and amortization	**440**	349
Decline in value of assets	**155**	–
Financing expenses, net	**536**	211
Share in losses of associated companies, net	**45**	23
Capital gains, net	**(66)**	(20)
Share-based payment transactions	**22**	11
Loss from investment in available-for-sale securities	**20**	–
Taxes on income	**22**	120
	2,344	1,067
Change in inventories	**134**	(315)
Change in trade and other receivables	**116**	(265)
Change in trade and other payables	**(264)**	366
Change in uncompleted voyages, net	**(47)**	(18)
Change in provisions and employee benefits	**37**	37
	2,320	868
Income taxes paid	**(347)**	(173)
Dividend received	**21**	24
Net cash provided by operating activities	**1,994**	719
Cash flows from investing activities		
Investment in long-term deposits	**(37)**	(10)
Proceeds from sale of property, plant and equipment	**175**	26
Short-term deposits and loans, net	**(103)**	160
Business combinations less cash acquired	**(111)**	(1,559)
Investment in associated companies	**(75)**	(212)
Investment in available for sale securities	**(42)**	–
Sale (acquisition) of securities held for trade, net	**(26)**	337
Acquisition of property, plant and equipment	**(908)**	(1,099)
Provision of long-term loans	**(28)**	(21)
Investment grants received	**2**	3
Proceeds from sale of investment in previously consolidated company	**–**	5
Acquisition of intangible assets	**(39)**	(30)
Proceeds from realization of long-term deposits	**13**	5
Interest received	**60**	12
Net cash used in investing activities	**(1,119)**	(2,383)

* Reclassified.

The notes and the attached appendices are an integral part of the financial statements.

Consolidated Statements of Cash flows (cont'd)

		For the year ended December 31	
		2008	2007
		$ millions	$ millions
Cash flows from financing activities			
Dividend paid to the minority		**(528)**	(299)
Proceeds from issuance of equity to the minority in subsidiaries		**7**	3
Receipt of long-term loans and issuance of debentures		**1,834**	2,600
Receipt of deposits from customers		**1**	9
Dividend paid		**(50)**	(60)
Acquisition by a subsidiary of its own shares		**(251)**	–
Repayment of long-term loans and debentures		**(1,352)**	(842)
Short-term credit from banks and others, net		**35**	681
Interest paid		**(360)**	(170)
Net cash provided by (used in) financing activities		**(664)**	1,922
Net increase in cash and cash equivalents		**211**	258
Cash and cash equivalents at the beginning of the year		**502**	231
Effect of exchange rate fluctuations on balances of cash and cash equivalents		**8**	13
Cash and cash equivalents at the end of the year	Note 5	**721**	502

The notes and the attached appendices are an integral part of the financial statements.

Note 1 - Financial Reporting Principles and Accounting Policies

A. The Reporting Entity

Israel Corporation Ltd. (hereinafter – “the Corporation”) is an Israeli-resident corporation whose shares are listed for trading on the Tel-Aviv Stock Exchange. The Corporation’s registered office is located at 23 Aranha St., Tel-Aviv, Israel. The consolidated financial statements as at December 31, 2008, include those of the Corporation and its subsidiaries (hereinafter – “the Group”) along with the Group’s rights in associated companies.

The Group operates through an array of investee companies, mainly, in the chemicals, shipping, energy, transportation and advanced technology sectors. The Corporation’s headquarters provides management services, through a wholly owned and controlled subsidiary, and is also actively involved in the strategic planning and business development of the Group companies. In addition, the Group acts to initiate and develop additional business interests.

The Corporation is held at the rate of 55% by the Ofer Group and 18% by Bank Leumi Le-Israel B.M.

B. Definitions

In these financial statements –

1. International Financial Reporting Standards (hereinafter – “IFRS”) – standards and interpretations adopted by the International Accounting Standards Board (IASB), which consist of International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), including interpretations to these standards provided by the International Accounting Standards Interpretations Committee (IFRIC) or interpretations provided by the Standards Interpretations Committee (SIC), respectively.
2. The Corporation – Israel Corporation Ltd.
3. The Group – Israel Corporation Ltd. and its subsidiaries.
4. Subsidiaries – companies whose financial statements are fully consolidated with those of the Corporation, directly or indirectly.
5. Proportionately consolidated companies – companies, including partnerships, whose financial statements are proportionately consolidated, directly or indirectly, with those of the Corporation.
6. Associated companies – companies, not including subsidiaries and proportionately consolidated companies, where the Company has significant influence over its monetary and operating policies and the Company’s investment therein is included based on the equity method of accounting. Significant influence is considered to exist where the rate of holdings therein is 20% or more, unless there are circumstances refuting this assumption.
7. Investee companies – subsidiaries and companies, including a partnership or joint venture, where the Corporation’s investment therein is included in the financial statements, directly or indirectly, on the equity basis.
8. Related parties – within the meaning thereof in International Accounting Standard 24 regarding “Related parties”.
9. Interested parties – as defined in Paragraph (1) of the definition “Interested Parties” in Corporation in Section 1 of the Securities Law, 1968.
10. CPI – the Consumer Price Index published by the Central Bureau of Statistics.
11. Dollar – the U.S. dollar.

Note 2 - Basis for the Financial Statements

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

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) and are the first annual financial statements in accordance with IFRS, wherein IFRS 1 “First-Time Adoption of IFRS Standards” was applied.

These financial statements were also prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements) 1993.

The impact of the transition to IFRS on the Corporation’s financial position, results of operations and cash flows is described in Note 41.

The consolidated financial statements were approved for publication by the Corporation’s Board of Directors on March 30, 2009.

B. Functional currency and presentation currency

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

C. Basis of measurement

The statements were prepared on the basis of historical cost, with the exception of the following assets and liabilities that are presented according to fair value: derivative financial instruments, financial instruments classified as “available for sale” and financial instruments at fair value through the statement of income.

Non-current assets held for sale and a group of assets held for sale are presented at the lower of their book values and their fair values less expected selling costs.

D. Use of estimates and judgment

In preparation of the 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.

Note 2 – Basis for the Financial Statements (cont'd)

D. Use of estimates and judgment (cont'd)

When formulating the accounting estimates used in preparation of the Corporation's financial statements, Corporation management is required to make assumptions regarding circumstances and events involving significant uncertainty. When using its judgment in making the estimates, Corporation management bases itself on past experience, various facts, external factors and reasonable assumptions regarding the appropriate circumstances for each estimate.

The estimates and the assumptions used for preparing the financial statements are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period during which the estimate was revised and in every future period affected.

Set forth below is information regarding critical estimates made while implementing the accounting policies and that have a very significant effect on the financial statements:

1. Employee benefits

According to International Standard IAS 19, a part of the Group's employee benefit plans constitute a "defined benefit plan" as defined in IAS 19. Such plans include principally, commitments for pension and severance benefits.

In computing the pension liability, the Corporation uses various assessments. These assessments include, among others, the interest rate for discounting the Corporation's pension liability, the long-term return expected on the pension fund's assets, an estimate of the salary increases over the long run, and assessment of the life expectancy of the group of employees entitled to pension benefits. Assessment of the interest rate for purposes of discounting the Corporation's pension liability is based on the return on corporate bonds for companies operating in countries having an active market, and on the return on government bonds for companies in other countries not having an active market for corporate bonds. The rate of return on long-term bonds changes according to market conditions. As a result the discount rate will also change and, correspondingly, the pension liability as well. The assessment of the long-term return on the pension fund's assets is based on the expected long-term return of the asset portfolio, in accordance with the composition of the pension fund's assets. Changes in capital market conditions or in the composition of the pension fund's asset portfolio may bring about a change in the assessment of the return on the assets of the fund and accordingly a change in the pension fund. The assessment regarding the increase in wages is based on forecasts of the Corporation in accordance with its past experience and current labor agreements. In actual fact, such assessments may not match the actual wage increases. The life expectancy estimates are based on actuarial research published in the various countries. As a practical matter, every few years the research findings are updated and accordingly the life expectancy assessment may also be updated.

The measurement of liabilities in respect of severance benefits is based upon an actuarial assessment, which takes into account various assessments, among other, the future increase in employee wages and the rate of employee turnover. The measurement is made on the basis of discounting the expected future cash flows according to the interest rate of high-ranking government bonds. Moreover, the severance pay deposits are measured according to their fair value. Changes in the assumptions used to calculate the severance pay liabilities and plan assets may increase or decrease the net severance pay liability recognized.

Note 2 – Basis for the Financial Statements (cont'd)

D. Use of estimates and judgment (cont'd)

2. Environmental protection and contingent liabilities

The Group produces, among other things, fertilizers and chemical products and, therefore, is exposed in the ordinary course of its business to liabilities and obligations under environmental and related laws. The Group invests significant amounts in order to comply with the legal requirements. The Group recognizes a liability in its books only when such liability is expected and may be measured. Measurement of the liability is based mostly on past experience, knowledge of the legal requirements in the Group's areas of operation, as well as assessments regarding outstanding claims existing against it based on opinions of legal advisors and other experts. As explained in Note 22 to the financial statements, several lawsuits are pending against the Group, the results of which may have a material effect on its results.

When assessing the possible outcomes of legal claims that were filed against the Group and its investee companies, the Group relied on the opinions of their legal advisors. The said opinions of the legal advisors are based on the best of their professional judgment, and take into consideration the current stage of the proceedings and the legal experience accumulated with respect to the various matters. Since the results of the claims will ultimately be determined by the courts, such results may be different than the aforesaid estimates. In addition, regarding a number of claims, the Group's estimates, based on opinions of its legal advisors, that in light of the complexity of the proceedings, at this stage it is not possible to predict the Group's financial exposure and, therefore, no provision has been included in the financial statements in respect thereof.

3. Property, plant and equipment

Property, plant and equipment are depreciated by the straight-line method over the useful lives of the assets, after taking into account the residual value. The Group re-examines the expected useful lives of the assets on a current basis in order to determine the amount of the depreciation expenses to be recorded in the period. The useful lives are based on the Group's past experience with similar assets while taking into account anticipated technological changes. The depreciation expenses for future periods are adjusted if there are significant changes as compared to the prior estimates.

Based on the Group's past experience, the amount of fully depreciated assets still being used in the manufacturing process is significant. In view of this, the Group conducted an examination of the useful lives of the fixed assets by means of making a comparison to the sector in which it operates, the level of maintenance of the plants and the functioning of the plants over the years. Based on this examination, the outstanding balance of the depreciation period is shorter than the balance of the useful lives of the property, plant and equipment. On the basis of this evaluation, the Group decided to change the estimate of the economic useful lives of the production plants. The change in the assessment is based on the Group's past experience and not on changes in the assets or in the business environment.

In order to determine the balance of the useful lives of the property, plant and equipment, the Group based itself on opinions received (partly internal opinions and partly opinions from independent appraisers). The change in the assessment of the useful lives of the property, plant and equipment reflecting an extension of the depreciation period, has been made in the framework of the financial statements commencing from January 1, 2007.

Note 2 – Basis for the Financial Statements (cont'd)

D. Use of estimates and judgment (cont'd)

3. Property, plant and equipment (cont'd)

The Group examines on every balance sheet date whether there have been any events or changes in circumstances which would indicate impairment of one or more non-monetary assets. When there are indications of impairment, an examination is made as to whether the carrying amount of the investment can be recovered from the discounted cash flows anticipated to be derived from the asset, and if necessary, an impairment provision is recorded up to the amount of the recoverable value. Assessment of the impairment of goodwill and of other intangible assets having an indeterminable lifespan is performed once a year or when indicators for impairment exist.

The recoverable value of the assets is determined based on the higher of the fair value less selling costs of the asset and the present value of the future cash flows expected from the continued use of the asset, including the cash flows expected upon retiring the asset from service and its eventual sale (usage value).

The future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The estimates regarding cash flows are based on past experience with respect to this asset or similar assets, and on the Group's best possible assessments regarding the economic conditions that will exist during the remaining useful life of the asset. Use of an appraiser's estimates is made when determining the fair value less selling costs of some of the assets. As noted, changes in the Group's estimates may result in material changes to the carrying amounts of the assets and to the results of operations.

Regarding a provision for impairment in value of the property, plant and equipment in the period of the report – see Note 15I to the financial statements.

4. Business combinations and associated companies

The Group is required to make an allocation of the acquisition cost of companies and activities in the framework of business combinations and to allocate any excess cost created on the acquisition of associated companies on the basis of the estimated fair values of the assets and liabilities acquired. The Group uses valuations of external appraisers for purposes of determining the fair values. The valuations include Management's estimates and assessments regarding the projected future cash flows from the business and a choice of models for calculation of the fair values of the items acquired. Management's estimates regarding forecasted cash flows and the useful lives of the assets acquired may be different than the actual results.

Note 2 – Basis for the Financial Statements (cont'd)

D. Use of estimates and judgment (cont'd)

5. Derivative financial instruments

The Group enters into transactions in derivative financial instruments for purposes of hedging foreign currency risks, inflation risks, interest risks and price risks. The derivatives are recorded based on fair value. The fair value of the derivative financial instruments is based on quoted prices, tariffs and interest rates received from banks and brokers as well as through acceptable trading software programs. Based on the data received, the fair value of the derivatives is estimated using pricing and valuation techniques that characterize the various financial instruments in the different markets. Measurement of the fair value of long-term financial instruments is accomplished by discounting the cash flows deriving therefrom on the basis of the terms and length of the period to maturity of each instrument and through use of market interest rates on similar instruments as at the measurement date. Changes in the economic assumptions and valuation techniques could give rise to significant changes in the fair value of the instruments.

6. Inventories

The inventory is measured in the financial statements at the lower of cost or net realization value. The net realization value is an estimate of the selling price in the ordinary course of business, less the estimated costs to complete the item and to execute the sale thereof to the extent they are known at the date of the financial statements. The selling price is estimated based on the anticipated selling price at the time of realization of the inventory, where a decline in the anticipated selling price could cause a decline in the value of the inventory on the books and in the results of operations, respectively. Raw materials are written down to realization value only where the finished products in which they are to be included are expected to be sold at an amount less than the cost. The realization value of raw materials is based on the realization values of the inventory of finished goods in which the raw materials incorporated. Where the replacement cost of the raw materials is the best available evidence of the realization value, measurement of the realization value of the raw materials is based on the said replacement cost.

7. Taxes on Income

Determination of provisions in respect of taxes on income requires use of discretion regarding the future tax treatment of various transactions. The Group carefully estimates the tax consequences of transactions and makes provisions for taxes accordingly. The tax treatment for transactions of this type is re-examined from time to time in order to take all legislative changes into account.

Deferred tax assets are recorded in connection with unutilized tax losses, as well as with respect to deductible timing differences. Since such deferred tax assets may only be recognized where it is reasonable that there will be future taxable income against which the said losses may be offset, use of discretion by Management is required in order to assess the probability that such future taxable income will exist.

Management's assessment is re-examined on a current basis and additional deferred tax assets are recognized if it is reasonable that future taxable income will permit recovery of the deferred tax assets.

Note 2 – Basis for the Financial Statements (cont'd)

D. Use of estimates and judgment (cont'd)

8. Impairment in value of trade receivables

The Group estimates losses from decline in value in respect of bad and doubtful debts deriving from the inability on the part of the customers to make the required payments. The Group bases the estimates on an aging of the receivables' balance, credit ratings with respect to the customers and the past experience in connection with write-offs. If the financial situation of the customers worsens, the actual write-offs will be higher than the estimates.

Note 3 - Significant Accounting Policies

The consolidated financial statements were prepared on the basis of IFRS, which have been published and are valid or can be adopted early prior to the date of the Group's first annual report in accordance with IFRS, December 31, 2008, and according to which the Corporation has set its accounting policy. In addition, these financial statements are prepared in accordance with the Securities Regulation (Preparation of annual Financial Statements), 1993.

Preparation of the consolidated financial statements in accordance with IFRS led to changes in the accounting policy, in comparison with the last annual financial statements, which were prepared in accordance with generally accepted accounting principles in Israel. The accounting policies described below were applied consistently to all periods presented in these consolidated financial statements. They were also applied in preparation of the opening balance sheet as of January 1, 2007, for purposes of the transition to IFRS, as required by IFRS 1. The impact of the transition from generally accepted accounting principles in Israel to IFRS is described in Note 41.

The accounting policies according to IFRS are applied consistently in the Group companies.

A. Basis for consolidation

1. Subsidiary companies

Subsidiary companies are entities that are controlled by the Group. Control exists when the Group has the ability to determine the financial and operational policy of the entity in order to derive benefit from its activities. When examining control, potential voting rights that can be exercised immediately are taken into account. The financial statements of the subsidiary companies are included in the consolidated financial statements from the date control was acquired until the date control ceases to exist. (The accounting policy of the subsidiary companies was changed as necessary for it to correspond with the accounting policy adopted by the Corporation).

Note 3 - Significant Accounting Policies (cont'd)

A. Basis for consolidation (cont'd)

2. Associated companies

Associated companies are entities regarding which the Group has significant influence over their financial and operational policy, however control has not been obtained. Associated companies are accounted for using the equity method of accounting. The consolidated financial statements include the Group's share in the revenues and expenses of investee entities accounted for using the equity method of accounting after making the adjustments necessary to conform the accounting policy to that of the Group from the date the significant influence exists and up to the date the said significant influence no longer exists. Where the Group's share in the losses exceeds the value of the Group's rights in an entity accounted for using the equity method of accounting, the book value of such rights (including any long-term investment) is written down to zero and the Group does not recognize additional losses, unless the Group is committed to support the investee entity or if the Group paid amounts for it.

3. Treatment of acquisition of additional rights from the minority after a business combination

With respect to the treatment of transactions involving acquisition of shares from the minority shareholders in subsidiaries, the Corporation chose to record the entire excess cost created on acquisition of minority shares in subsidiaries to goodwill, and not to allocate it specifically to identified assets since the initial acquisition of control is not involved and since under IFRS upon the initial acquisition of control all the identified assets and liabilities are presented at their fair values on that date.

4. Treatment of sale of shares to the minority while maintaining control

With respect to transactions involving a sale of shares to the minority while maintaining control, the Corporation recognizes income from the sale equal to the difference between the proceeds received and the book value of the portion sold, consistent with the treatment it applied to acquisitions of the minority interest (increase in the rate of holding while maintaining control). In addition, this alternative more properly reflects the nature of the Corporation's current activities relating to acquisitions and sales of holdings in various companies.

5. Jointly controlled entities treated in accordance with the proportionate consolidation method

Jointly controlled entities are entities with respect to which the Group has joint control over their activities, which is obtained by means of a contractual arrangement requiring the joint consent of the other investors in connection with strategic, financial and operational decisions. Jointly controlled entities are treated in accordance with the proportionate consolidation method from the date on which the joint control obtains and up to the time such joint control no longer exists. The consolidated financial statements include the Group's proportionate share in the assets, liabilities, revenues and expenses of the proportionately consolidated companies based on the rates of the holdings in those companies, after the adjustments necessary in order to conform their accounting policies to those of the Group.

6. Intercompany balances and transactions eliminated in the consolidation

Intercompany balances within the Group and unrealized income and expenses deriving from intercompany transactions are eliminated in preparation of the condensed, consolidated financial statements. Unrealized income deriving from transactions with associated companies was eliminated against the investment based on the Group's rights in these investments. Unrealized losses are eliminated in the same manner as unrealized income, provided there is no evidence of an impairment in value.

Note 3 - Significant Accounting Policies (cont'd)

A. Basis for consolidation (cont'd)

7. Minority interest

The minority interest represents the net interest in the assets of subsidiaries that is allocated to rights not owned by the Corporation, whether directly or indirectly through subsidiaries and regarding which the Corporation has not agreed to additional conditions with the holders of those rights that would cause the total group to be contractually obligated with respect to those rights that meet the definition of a financial obligation. The minority interest is presented in the consolidated balance sheet in the equity section, separate from the equity attributable to the Corporation's shareholders. The minority interest in the Group's results is presented in the consolidated statement of income as an allocation of the total income or loss for the period between the minority interest and the Corporation's shareholders.

Where the losses attributable to the minority interest exceed the minority's interest in the subsidiary's equity, such excess along with any additional losses applying to the minority interest are recorded against the Group's rights, except where the minority interest has an enforceable obligation to make and it is capable of making an additional investment to cover the losses. If the subsidiary subsequently reports income, such income is allocated to the Group's rights until the minority's interest in the losses previously absorbed by the Group is recovered.

8. Issuance of "put" option issued to rights' holders that do not confer control

A "put" option issued by the Group to rights' holders that do not confer control is recorded as a liability at fair value, which is treated as contingent acquisition cost of the rights that do not confer control. Changes in the fair value in the succeeding periods are recorded on the statement of income. The Corporation's share in the income of the company being acquired includes the share of the other rights' holders to which the Corporation issued the "put" option.

B. Foreign currency

1. Transactions in foreign currency

Transactions in foreign currency are translated into the Group's functional currency based on the exchange rate in effect on the dates of the transactions. Monetary assets and liabilities denominated in foreign currency on the report date are translated into the Group's functional currency based on the exchange rate in effect on that date. Exchange rate differences in respect of the monetary categories is the difference between the net book value in the functional currency at the beginning of the period plus the payments during the period and the net book value in foreign currency translated based on the rate of exchange at the end of the period. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency based on the exchange rate in effect on the date the fair value was determined. Exchange rate differences deriving from re-translation are recognized in the statement of income, except for differences deriving from re-translation of non-monetary equity instruments classified as available for sale or cash-flow hedges that are recorded directly to equity.

Note 3 - Significant Accounting Policies (cont'd)

B. Foreign currency (cont'd)

2. Foreign activities

The assets and liabilities of foreign activities, including goodwill and adjustments to fair value created upon acquisition, were translated into dollars according to the rates of exchange in effect on the balance sheet date. Income and expenses of foreign activities were translated into dollars according to the rates of exchange that were in effect on the transaction dates.

Exchange rate differences resulting from the translation are recorded directly to equity, as of January 1, 2007, the date of transition to IFRS. According to the provisions of IFRS 1, the Group chose to zero out the accumulated translation differences against the balance of the retained earnings for all its foreign activities, on the transition date to IFRS. When a foreign activity is realized, in whole or in part, the appropriate amount in the translation reserve is transferred to the income statement.

Gains and losses from translation differences deriving from loans received from or granted to foreign activities, the settlement of which is not planned and is not expected to take place in the foreseeable future, are included as part of the net investment in the foreign activities and are recorded directly to equity in a reserve for translation of foreign currency.

C. Financial instruments

1. Non-derivative financial instruments

Non-derivative financial instruments include investments in shares and debt instruments, trade and other receivables, cash and cash equivalents, loans, credit received, debentures, supplier credit and trade and other payables.

The initial recognition of non-derivative financial instruments is according to fair value, with the addition of, for instruments not presented at fair value through the statement of income, all attributable direct transaction costs. After the initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognized when the Group accepts the contractual conditions of the instrument. Financial assets are eliminated when the contractual rights of the Group to the cash flows deriving from the financial assets expire, or when the Group transfers the financial assets to others without retaining control or effectively transfers all of the risks and rewards deriving from the asset. Acquisitions and sales of financial assets made in the usual manner are recognized on the transaction date, that is, on the date the Group undertook to buy or sell the assets. Financial liabilities are deducted when the Group's obligation as described in the contract expires or when it is paid or cancelled.

Cash and cash equivalents

Cash and cash equivalents include cash balances or deposits that are available for immediate withdrawal. Cash equivalents include highly liquid short-term investments that can be easily converted into known amounts of cash and that are exposed to insignificant risk regarding changes in value. Revolving credit from banks, which are repayable on demand and that constitute an integral part of the Group's cash management, are included as part of the cash and cash equivalents solely for purposes of the statement of the cash flows.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

1. Non-derivative financial instruments (cont'd)

Financial assets available for sale

The Group's investments in non-marketable shares and certain debt instruments are classified as financial assets available for sale. After the initial recognition, these investments are measured based on fair value, where the changes therein, except for losses from decline in value, dividend income and gains or losses from changes in the exchange rate, and accrual of effective interest regarding monetary items classified as available for sale are recorded directly to equity. A dividend received in respect of monetary assets classified as available for sale is recorded on the statement of income on the date the right to the payment arises. When the investment is eliminated, the gains or losses accrued to equity are transferred to the statement of income.

Investments in shares of companies that are not publicly traded and that have no quoted market price in an active market and that cannot be reliably measured at their fair value, are recognized in the balance sheet based on cost net of declines in value.

Investments in securities presented at fair value through the statement of income

The Group maintains investments of this type and makes buy and sell decisions based on the fair value, in accordance with the way in which the Corporation documented the risk management and investment strategy. At time of the initial recognition, the allocable transactions costs are recorded on the statement of income as incurred. These financial instruments are measured at fair value and the changes therein are recorded on the statement of income.

Loans and receivables

Loans and other debit balances are non-derivative financial assets bearing payments that are fixed or that can be fixed and that are not traded on an active market. After the initial recognition, the loans and other debit balances are measured based on amortized cost using the effective interest method while taking into account transaction costs and less provisions for decline in value.

2. Derivative financial instruments

The Group companies make use of derivative financial instruments for purposes of reducing the exposure to commodity price risks, foreign currency risks, inflation risks, interest risks, and prices of inputs. In addition, the Group companies have embedded derivatives that are components of a hybrid instrument that also includes the host contract that is not a derivative. Embedded derivatives are separated from the host the contract and are treated separately if: (a) there is no close relationship between the economic characteristics and risks of the host contract and of the embedded derivative; (b) a separate instrument having the same terms as the embedded derivative would have met the definition of a derivative; and (c) the integrated instrument is not measured at fair value through the statement of income.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

2. Derivative financial instruments (cont'd)

Derivatives are initially recognized according to fair value and the allocable transaction costs are charged to the statement of income as incurred.

After the initial recognition, the derivatives are measured at fair value, where the changes in the fair value are treated as described below.

Derivatives not used for accounting hedges are measured based on fair value, where the changes in the fair value are recorded on the statement of income. Changes in the fair value derivatives held for trade are recorded on the statement of income. Investments in securities held for trade are presented at fair value through the statement of income.

Hedge accounting

In order for a transaction in financial instruments to be considered an accounting hedge a number of conditions must be met, including conditions with respect to designation of the instrument, compliance with strict documentation requirements and high hedge effectiveness from the outset and throughout the entire hedge.

The Group companies applied hedge accounting with respect to derivatives hedging against a change in interest rates and currency rates.

Changes in the fair value of a derivative financial instrument for hedging fair value are recorded on the statement of income. The hedged item is also presented at fair value, based on the risks hedged, and changes in the fair value are recorded on the statement of income.

The changes in the fair value of the derivative financial instruments used to hedge cash flow are recorded in a capital reserve, provided the hedge is effective. The part of the changes in the fair value of the hedging instrument that is not effective is recorded on the statement of income on a current basis. Were an instrument ceases to fulfill the conditions for application of cash flow hedge accounting, is sold, realized for expires, the hedge accounting is discontinued. The cumulative amount recorded to the capital reserve is transferred to the statement of income at the time the hedged exposure ends.

Hedge accounting is not applied with respect to derivative financial instruments used for an economic hedge of financial assets and liabilities denominated in foreign currency. Part of the transactions the Corporation exercises in financial instruments to reduce economic exposure, as stated above, do not meet the hedging conditions provided in the international standards and, therefore, the said financial instruments are measured at fair value and any changes in the fair value are recorded on the statement of income immediately.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

3. Index-linked assets and liabilities not measured at fair value

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is re-measured every period in accordance with the actual increase in the CPI.

4. Share capital

Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity.

D. Property, plant and equipment

1. Recognition and measurement

Property, plant and equipment items are presented at cost after deducting the related amounts of investment grants and less accumulated depreciation and losses from declines in value.

The cost includes expenses that can be directly attributed to the purchase of the asset. The cost of assets that were constructed independently includes the cost of the materials and direct salary costs, as well as any additional cost that are directly attributable to bringing the asset to the required position and condition so that it will be able to function as management intended, as well as costs to dismantle and remove the items and to restore its location. The cost of purchased software, which is an inseparable part of operating the related equipment, is recognized as part of the cost of said equipment. In addition, deposits on account of acquisition of property, plant and equipment are recognized as part of the property, plant and equipment.

Spare parts for facilities are valued at cost determined based on the moving average method, after recording a write-down in respect of obsolescence. The portion designated for current consumption is presented in the inventory category in the "current assets" section.

Where significant parts of an item of property, plant and equipment (including costs of major periodic inspections) have different life expectancies, they are treated as separate items (significant components) of such items.

Changes in a commitment to dismantle and remove items and to restore their location, except for changes stemming from the passage of time, are added to or deducted from the cost of the asset in the period in which they occur. The amount to be deducted from the cost of the asset may not exceed its book value and the balance, if any, is to be recognized immediately on the statement of income.

Note 3 - Significant Accounting Policies (cont'd)

D. Property, plant and equipment (cont'd)

1. Recognition and measurement (cont'd)

Fleet of ships and related equipment

The fleet of ships and related equipment are presented at cost less accumulated depreciation and accumulated impairment losses. The cost of inspecting the vessel (dry docking), that needs to be performed after a number of years of operation (usually once every five years), is separated from the cost of the vessel and depreciated according to the period until the following inspection. Corporation management believes that a ship does not have another material separate component whose expected period of use is different from the expected period of use of the entire vessel (25 years).

Part of the fleet of ships was acquired using loans at reduced interest rates, subsidised by the governments of the countries of residence of the shipbuilders. Those ships are presented net of the interest component included in the purchase price calculated as the difference between the interest payable over the period of the loan using the subsidised interest rate and that using the prevailing market interest rates. The loan is recognized at its present value taking into account the non-subsidized effective interest, such that interest expense is recorded on it based on the market interest rate on the date of the loan's receipt.

Non-specific borrowing costs were capitalized as part of the cost of the fleet of ships in the construction period and up to the delivery date of the fleet of ships.

Gains and losses on disposal of a ship item, containers, handling equipment and other tangible assets are determined by comparing the proceeds from disposal with the carrying amount of the item, and are recognized net under "other income" in the statement of income.

2. Subsequent costs (costs incurred after the initial recognition date)

The cost of replacing part of an item of property, plant and equipment is recognized as part of the book value of the item if it is expected that the future financial benefit inherent in the item will flow to the Group and that its cost can be measured in a reliable manner. The book value of the part that was replaced is eliminated. Routine maintenance costs are charged to the statement of income as incurred.

Significant improvements that extend the useful lives of property, plant and equipment are capitalized as part of the cost of the property, plant and equipment.

3. Depreciation

Depreciation is charged to the statement of income according to the straight-line method over the estimated useful life of each part of the property, plant and equipment items. Leased assets, including leasehold improvements, are depreciated over the shorter of the lease period or the useful life of the asset, unless there is reasonable certainty that the Group will obtain control over the assets at the end of the lease period. Real estate assets are not depreciated.

Note 3 - Significant Accounting Policies (cont'd)

D. Property, plant and equipment (cont'd)

3. Depreciation (cont'd)

The estimated useful lives for the current period and comparative periods is as follows:

	In Years
Land development, roads and structures	10–50
Facilities, machinery and equipment	4–50
Dams and ponds	6–25
Heavy mechanical equipment, train cars and tanks	5–50
Office furniture and equipment, motor vehicles, computer equipment and other	3–17
Power station	20–50
Catalysts	2–10
Leasehold improvements	Over the term of the lease

The estimates regarding the depreciation method, useful life and scrap value are re-evaluated, at a minimum, at the end of every reporting year.

The estimated useful lives of the fleet of ships and the accompanying equipment for the current period and comparative periods is as follows (taking into account a salvage value of 10% of the cost of the assets):

	In Years
Fleet of ships	25
Containers	13
Chassis	30
Other equipment	13
Dry-dock for fleet of owned ships	Mainly 5 years

E. Intangible Assets

1. Goodwill

Goodwill and negative goodwill are created as a result of acquisition of subsidiaries, including minority acquisitions, associated companies, including acquisitions of additional rights in the associated companies, or proportionately consolidated companies.

Acquisitions before January 1, 2007

As part of the transition to reporting according to IFRS, the Group chose to restate according to IFRS only business combination transactions occurring after the date of transition to IFRS, January 1, 2007. Regarding acquisitions that occurred before January 1, 2007, the goodwill reflects the amount recognized by the Group, in accordance with generally accepted accounting principles in Israel. For these acquisitions, the classification and accounting treatment were not adjusted to IFRS for purposes of preparation of the Group's opening balance sheet.

Note 3 - Significant Accounting Policies (cont'd)

E. Intangible Assets (cont'd)

1. Goodwill (cont'd)

Acquisitions after January 1, 2007

Regarding acquisitions on and after January 1, 2007, the goodwill reflects the excess of the acquisition cost over the Group's rights in the net fair value of the identified assets, liabilities and contingent liabilities of the acquired entity, where when such excess is negative (negative goodwill) it is recorded to the statement of income.

Acquisition in stages

In business combinations executed in stages, all the identified assets and liabilities of the acquired company are presented at their fair values on the date control of the acquired company is obtained. The difference created due to revaluation of prior acquisitions on the date control is obtained is not material. The balance of negative goodwill on the dates of the original acquisitions and the Corporation's share in the income of the acquired company in the period up to the date control of the acquired company is obtained are recorded in the retained earnings.

Acquisition of the minority interest

The difference between the amount paid and the minority interest acquired is recognized as goodwill.

Subsequent measurement

Goodwill is measured according to cost after deduction of accrued losses from declines in value. Goodwill in respect of investments in associated companies is included in the book value of the investment.

2. Research and Development

Costs related to research activities undertaken for the purpose of acquiring knowledge and new scientific or technological understandings are charged to the statement of income as incurred.

Development activities related to a plan for the production of products or new processes or significant improvement of products. Costs of development activities are recognized as an intangible asset only if: it is possible to reliably measure the development costs; it is technically and commercially possible to implement the product or process; future economic benefit is expected from the product and the Group has intentions and sufficient resources to complete development of the asset and then use or sell it. The costs recognized as an intangible asset include the cost of materials, direct wages, and overhead costs that can be allocated directly to preparation of the asset for its intended use. Other costs in respect of development activities are recorded on the statement of income as incurred. Capitalized development costs are measured to the activities less amortization and accrued losses from declines in value.

Note 3 - Significant Accounting Policies (cont'd)

E. Intangible Assets (cont'd)

3. Other intangible assets

Other intangible assets purchased by the Group, with a defined useful life, are measured according to cost less amortization and accrued losses from declines in value.

4. Dry-dock for fleet of leased ships

The cost of inspecting the fleet of ships held under a bareboat charter (an operating lease) is amortized according to the shorter of the period up to the next inspection or the period up to the end of the lease.

5. Subsequent costs

Subsequent costs are recognized as an intangible asset only when they increase the future economic benefit inherent in the asset for which they were incurred. All other costs, including costs relating to goodwill or trademarks developed independently, are charged to the statement of income as incurred.

6. Amortization

Amortization is recorded on the statement of income according to the straight-line method (except for customer contacts and geological surveys that are amortized over the rate of consumption of the economic benefits expected from the asset on the basis of the projected cash flows) over the estimated useful economic life of the intangible assets, commencing from the date the assets are available for use, other than goodwill and intangible assets with an undefined useful life, which are not amortized on a systematic basis but, rather, are examined each period for indications of a decline in value.

The estimated useful lives for the current period and comparative periods is as follows:

	In Years
Concessions	*
Software costs	3–10
Trademarks	5–13
Agreements with customers	3–15
Agreements with suppliers	5
Patent	13–15
Non-competition agreement	5
Royalties in respect of know-how (paid in advance)	8
Water and electricity rights	25
Dry-dock for fleet of leased ships	Up to 5 years

Deferred expenses in respect of geological surveys are amortized over the useful life based on a geological estimate of the amount of the material that will be produced from the mining site.

* Over the balance of the concession granted to the companies.

Note 3 - Significant Accounting Policies (cont'd)

E. Intangible Assets (cont'd)

6. Amortization (cont'd)

The estimates regarding the amortization method and useful life are reviewed, at a minimum, at the end of every reporting year.

The Group periodically examines the estimated useful life of an intangible asset that is not amortized in order to determine if events and circumstances continue to support the determination that the intangible asset has an undefined life.

F. Leased Assets

Leases wherein the Group bears most of the risks and rewards relating to the asset are classified as a financing lease. At the time of the initial recognition, the leased assets are measured at an amount equivalent to the lower of the fair value and the present value of the minimum lease fees. After the initial recognition, the asset is treated in accordance with the accounting policies covering such asset. The rest of the leases are classified as operating leases, where the leased assets are not recognized in the Corporation's balance sheet.

In sale and leaseback transactions, capital gains from the sale are recorded in the statement of income, where the selling price is equal to the fair value of the asset sold and leaseback is defined as an operating lease.

Leases of land from the Israel Lands Administration (hereafter – "ILA") constitute operating leases. Lease fees paid to the ILA are paid currently and are recorded on the statement of income. The period of the lease and amortization amounts take into account an option to extend the lease, if at the time of entering into the lease commitment it was reasonably certain that the option would be exercised.

G. Inventories

Inventory is measured at the lower of cost or net realizable value. The cost of the inventory includes the costs of purchasing the inventory and bringing it to its current location and condition. In the case of work in process and finished goods, the cost includes the proportionate part of the manufacturing overhead based on normal capacity. Net realization value is the estimated selling price in the ordinary course of business, after deduction of the estimated cost of completion and the estimated costs required to execute the sale. The market value of the inventory of crude oil is determined on the basis of international prices.

The cost of the inventory of raw and auxiliary materials, maintenance materials, finished goods and goods in process, crude oil, fuel products and intermediate products for refining, is determined mainly according to the "moving average" method.

Some of the raw materials, finished goods and goods in process are in bulk. The quantities are based on estimates (which are made, for the most part, by outside experts who measure the volume and density of the inventory).

Inventory the sale of which is expected to take place in a period of more than 12 months from the balance sheet date is presented as non-current inventory, as part of investments and long-term debit balances.

Note 3 - Significant Accounting Policies (cont'd)

H. Capitalization of Credit Costs

The costs of specific credit and non-specific credit were capitalized to qualifying assets, as defined in International Accounting Standard 23 "Credit Costs", during the period required for completion and establishment until the time when they are ready for their intended use. Non-specific credit costs were capitalized in the same manner to the investment in qualifying assets or to the part thereof that was not financed by specific credit using an interest rate that is the weighted-average of the cost rates in respect of those credit sources that were not capitalized specifically. Other credit costs are charged to the statement of income as incurred.

I. Impairment in Value

1. Financial assets

A decline in value of a financial asset is examined when there is objective evidence that one or more events have occurred that may have had a negative effect on the estimate of the future cash flows from the asset.

In the examination of decline in value of financial assets available for sale that are equity instruments, the Corporation also examines the difference between the fair value of the assets and its original cost, while taking into account the standard deviation of the instrument's rate, the length of time the asset's fair value is less than its original cost and changes in the technological, economic and/or legal environment, and/or the environment in the market in which the company issuing the instrument operates.

The loss from impairment in the value of a financial asset measured according to depreciated cost is calculated as the difference between the book value of the asset and the present value of the estimated future cash flows, discounted using the original effective interest rate. A loss from decline in value of a financial asset classified as available for sale is calculated based on the asset's present fair value.

For material financial assets, the need to reduce the value of the asset is examined for each asset individually.

All losses from declines in value are recorded to the statement of income. The cumulative loss relating to a financial asset classified as available for sale and previously recorded in equity, is transferred to the statement of income when there is a decline in value.

The loss from impairment in value is cancelled when such recovery is objectively attributable to an event that occurred after recognition of the loss from impairment in value. Cancellation of a loss from impairment in value in respect of financial assets measured according to depreciated cost and of financial assets classified as available for sale that are debt instruments, is recorded to the statement of income. Cancellation of a loss from impairment in value in respect of financial assets classified as available for sale that are equity instruments, is recorded directly to the equity section.

Note 3 - Significant Accounting Policies (cont'd)

I. Impairment in Value (cont'd)

2. Non-financial assets

The book value of the Group's non-financial assets, other than inventory and deferred tax assets, is examined for each reporting period in order to determine if there are signs indicating impairment in value. If such signs exist, the estimated recoverable amount of the asset is calculated. The book value of the recoverable amount of goodwill, intangible assets having an undefined life or that are not available for use and investments in associated companies in respect of which goodwill was recognized in the investment account, is examined once a year or more frequently if there are signs of a decline in value.

The recoverable amount of an asset or a cash-producing unit is the higher of its use value or the net selling price (fair value minus selling costs). When determining the use value the Group discounted the anticipated future cash flows according to the pre-tax discount rate that reflects the market evaluations regarding the time value of the money and the specific risks attributed to the asset. For purposes of testing impairment in value, the assets are grouped together into the smallest group of assets that yields cash flows from continuing use, which are essentially independent of the other assets and other groups ("cash-producing unit"). Goodwill purchased in the context of business combinations is allocated for the purpose of examining impairment in value to cash-producing units that are expected to yield benefits from the synergy of the combination.

Losses from impairment of value are recognized when the book value of the assets or of the cash-producing unit to which the asset belongs exceeds the recoverable value and are recorded to profit and loss. Losses from impairment of value that were recognized for cash-producing units are first allocated to reducing the book value of the goodwill attributed to these units and afterwards to reducing the book value of the other assets in the cash-producing unit, proportionately.

A loss from impairment in value of goodwill is not cancelled. Regarding other assets, losses from impairments of value that were recognized in previous periods are re-examined in each reporting period in order to determine if there are signs indicating that the losses have decreased or no longer exist. A loss from impairment of value is cancelled if there is a change in the estimates used to determine the recoverable value, only if the book value of the asset, after cancellation of the loss from impairment of value, does not exceed the book value, after deduction of deprecation or amortization, that would have been determined if the loss from impairment of value had not been recognized.

J. Groups of non-current assets held for sale

Non-current assets (or groups of assets and liabilities for disposal) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as being held for sale, the assets (or components of a disposal group) are re-measured in accordance with the Group's accounting policies. Thereafter, in general, the assets (or disposal group) are measured at the lower of their carrying amount and fair value less selling costs. In subsequent periods, assets that were depreciated until their classification as held for sale, are no longer depreciated periodically. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognized on the statement of income. Gains are recognized up to the cumulative amount of the impairment loss previously recorded.

Note 3 - Significant Accounting Policies (cont'd)

K. Employee Benefits

The Group has several post-employment benefit plans. The plans are funded primarily by deposits with insurance companies or pension funds, and they are classified as defined contribution plans and as defined benefit plans.

1. Defined contribution plans

The Group's obligation to make deposits in a defined contribution plan is recorded as an expense to profit and loss at the time the obligation to make the deposit arises.

2. Defined benefit plans

The Group's net obligation, regarding defined benefit plans for post-employment benefits, is calculated for each plan separately by estimating the future amount of the benefit to which an employee will be entitled as compensation for his services during the current and past periods. The benefit is presented according to present value after deducting the fair value of the plan assets. The discount rate of the Group companies operating in countries wherein there is a market having a high level of trading in corporate debentures is in accordance with the yield on the corporate debentures. The discount rate of the Group companies operating in countries wherein there is no market having a high level of trading as stated above, is in accordance with the yield on government bonds on the report date, where their currency and maturity date are similar to the conditions obligating the Group. The calculations are performed by a licensed actuary using the "projected eligibility unit" method.

When on the basis of the calculations an asset is created for the Group, the asset is recognized up to the net present value of the available economic benefits in the form of a refund from the plan or by a reduction in future deposits to the plan. An economic benefit in the form of return from the plan or a reduction in future deposits will be considered available when it can be realized in the lifetime of the plan or after settlement of the obligation.

When there is an obligation, as part of a minimal deposit requirement, to pay in additional amounts in respect of services provided in the past, the Corporation recognizes an additional liability (an increase of the net liability or a decrease of the net asset), provided that such amounts are not available as an economic benefit in the form of a refund from the plan or by a reduction in future deposits to the plan.

Where there is an improvement in the benefits granted by the plan to the employees, the portion of the increased benefits relating to the employees' past services is recorded on the statement of income based on the straight-line method over the average period up to the vesting of the benefits. If the benefits vest immediately, the expense is recorded on the statement of income immediately.

Note 3 - Significant Accounting Policies (cont'd)

K. Employee Benefits (cont'd)

2. Defined benefit plans (cont'd)

The movement in the liability in respect of a defined benefit plan for every accounting period is composed as follows:

(i) Current service costs – the increase in the present value of the liability deriving from service of employees in the current period;

(ii) Current interest costs – the increase in the present value of the liability deriving from the passage of time;

(iii) Anticipated yield on the fund's assets;

(iv) Exchange rate differences.

(v) Past service costs – the change in the present value of the liability in the current period as a result of a change in the post-retirement benefits relating to a prior period.

(vi) Reduction due to reduction of the benefits.

The difference, as at the balance sheet date, between the net liability at the beginning of the period, plus the profit and loss movement, as described above, and the actuarial liability less the fair value of the plan assets at the end of the period, reflects the balance of the actuarial gains and losses recorded directly to equity.

3. Other long-term employee benefits

The Group's net obligation for long-term employee benefits, which are not attributable to post-employment plans, is for the amount of the future benefit to which employees are entitled for services that were provided during the current and past periods. The amount of these benefits is discounted to its present value and the fair value of the assets related to this obligation is deducted therefrom. The discount rate is determined according to the yield on government bonds, where their currency and maturity date are similar to the conditions that obligate the Group, as at the reporting date. The calculations are performed by using the "projected eligibility unit" method. Actuarial gains and losses are recorded to the statement of income in the period in which they arise.

In cases where the amount of the benefit is the same for each employee, without taking into account the years of service, the cost of these benefits are recognized where an actual benefit is given.

Note 3 - Significant Accounting Policies (cont'd)

K. Employee Benefits (cont'd)

4. Severance pay

Severance pay is charged as expense when the Group is clearly obligated to pay it, without any reasonable chance of cancellation, in respect of termination of employees before they reach the customary age of retirement according to a formal, detailed plan. The benefits given to employees upon voluntary retirement are charged when the Group proposes a plan to the employees encouraging voluntary retirement, it is expected that the proposal will be accepted and it is possible to reliably estimate the number of employees that will accept the proposal.

A loan to Haifa Early Retirement Company Ltd. constitutes a right to indemnity that the Group will receive for payment of a liability in respect of early retirement. This indemnity right does not constitute a defined benefit plan asset in respect of severance and is presented in the balance sheet as an asset. This indemnity right is measured based on fair value. Changes in the value each period are recorded directly on the statement of income.

5. Short-term benefits

Obligations for short-term employee benefits are measured on a non-discounted basis, and the expense is recorded at the time the said service is provided.

A provision in respect of short-term employee benefits relating to a cash bonus is recognized when the Group has a present legal or implied obligation to pay the said amount for a service provided by the employee in the past and where it is possible to reliably measure the said amount.

6. Share-based payment transactions

The fair value at the time options are granted to employees is charged as a salary expense, with a corresponding increase in equity (in the retained earnings category), over the period in which the employees' eligibility for the options vests. The amount recorded as an expense is adjusted in order to reflect the number of options that are expected to vest.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as a salary expense in profit or loss.

Transactions wherein the parent company grants to the company's employees rights to its equity instruments are accounted for by the company as equity-settled share-based payment transactions, that is, it recognizes the fair value of the grant directly in equity, as stated above.

Share based payments granted before November 7, 2002, or that vested prior to January 1, 2007, are not treated retroactively in accordance with IFRS 2, as allowed by the relief provided in IFRS 1.

Note 3 - Significant Accounting Policies (cont'd)

L. Provisions

A provision is recognized when the Group has a present legal or implied obligation as the result of an event that occurred in the past, when it can be reliably estimated and when it is expected that a flow of economic benefits will be required in order to settle the obligation. The provision is determined based on capitalization of the future cash flows using a pre-tax interest rate reflecting the current market estimates with respect to the time value of money and the risks specific to the liability.

1. Warranty

A provision for warranty is recognized when the products or services, in respect of which the warranty is provided, are sold or performed. The provision is based on historical data and on a weighting of all possible expenses according to their probability of occurrence.

2. Reorganization

A provision for reorganization is recognized when the Group approves a formal detailed plan for reorganization and such reorganization has effectively begun, or where a notification in respect thereof has been given to the employees. The provision does not related to the Group's continuing operating expenses.

3. Provision for environmental costs

The Group recognizes a provision for an existing obligation that has occurred in respect of a current cost for operation and maintenance of facilities for prevention of environmental pollution and anticipated provisions for costs relating to environmental restoration stemming from current or past activities. Costs for preventing environmental pollution that increase the life expectancy or efficiency of the facility or decrease or prevent the environmental pollution, are recorded to the cost of the fixed assets and are depreciated according to the usual depreciation rates used by the Group.

4. Legal claims

A provision for legal claims is recorded where the Group has a present legal or implied obligation as the result of a past event, when it is more likely than not that the Group will be required to use its economic resources to settle the obligation and it can be reliably estimated. Where the time value of money is significant, the provision is measured based on its present value. In addition, in rare cases where it is not possible to estimate the outcome of the contingency, no provision is recorded in the financial statements.

Note 3 - Significant Accounting Policies (cont'd)

M. Recognition of Revenues

1. Sale of goods

Revenue from the sale of goods is measured according to the fair value of the consideration received or to be received, after deducting returns, discounts, commercial discounts and quantity discounts. In cases where the credit period is short and constitutes the accepted credit period allowed in the sector, the future payment is not discounted. The Group recognizes the revenue when the significant risks and rewards from ownership of the merchandise are transferred to the buyer, receipt of the consideration is expected, it is possible to reliably estimate the chance that the goods will be returned and the costs that were incurred or will be incurred for the transaction can be reliably estimated, when the management has no ongoing involvement in the goods and the revenue can be reliably estimated. Transfer of the risks and rewards changes in accordance with the specific conditions of the sale contract.

2. Income from voyages and accompanying services

Income and expenses relating to cargo traffic are recognized on the basis of percentage of completion of voyages. Percentage of completion is determined as the ratio of the number of days from the beginning of the voyage to the balance sheet date to the total estimated duration of the voyage, which, in the opinion of management, is not materially different from the ratio of the number of ports at which the vessel calls from the beginning of the voyage to the balance sheet date to total number of ports at which the vessel calls during the voyage and does not necessarily constitute an indication of the rate of progress of each container. Estimated losses on voyages are provided for in full. Income from related services is recognized at the time the service is provided.

3. Construction contracts

Revenues and expenses from construction contracts are recorded on the statement of income, in proportion to the percentage of completion of the contract, where it is possible to reliably estimate its results. Revenues from a construction contract include the original amount included in the contract plus amounts relating to changes in the work order, claims and incentives, provided income is expected and it can be reliably measured.

The estimate of the percentage of completion is based on the cost of the work performed. Where it is not possible to reliably estimate the results of a construction contract, the revenues from the said contract is recognized only in an amount equal to the costs that can reasonably expected to be recovered. An anticipated loss from a construction contract is recorded immediately on the statement of income.

As part of the concession agreements for provision of services with government entities for construction and operation of water desalinization facilities in exchange for fixed and variable payments, the Group recognizes a financial asset in its financial statements commencing from the start of the construction of the facilities. The financial asset reflects the government's debt and bears interest determined based on the customer's risk-free interest rate plus an interest rate reflecting the appropriate risk.

Note 3 - Significant Accounting Policies (cont'd)

M. Recognition of Revenues (cont'd)

Operating and maintenance costs of the facility are recorded in the statement of income as incurred. The operating income was calculated based on the amount of the expenses recorded in the statement of income with the addition of a fixed margin.

4. Income from services

Income from services provided is recorded in the statement of income upon provision of the service if the flow of the economic benefits relating to provision of the service is certain.

N. Payment of Lease Fees

Payments under an operating lease are recorded on the statement of income using the straight-line method over the term of the lease period.

Minimum lease payments made as part of a financing lease are divided between the financing expenses and reduction of the liability balance. The financing expenses are allocated to each period of the lease term, such that it receives a fixed periodic interest rate on the remaining balance of the liability. The lease payments are updated over the remaining term of the lease for contingent lease fees on the date the approval is received for the change in the lease conditions.

The minimum lease payments are updated for the contingent lease payments when the contingency is clarified.

O. Resource Exploration Costs and Valuation Thereof

Costs incurred in respect of the exploration for resources and their valuation are recognized as tangible and intangible assets based on their nature. The costs are presented at cost less accumulated depreciation and a provision for decline in value.

The cost includes, among other things, costs of performing studies, drilling costs and operations in connection with evaluating the technical feasibility of the commercial capability of production of the resources.

P. Financing Income and Expenses

Financing income includes income from interest on amounts invested (including financial assets available for sale), income from dividends, income from sale of financial assets classified as available for sale, changes in the fair value of financial assets presented at fair value through the income statement, gains from foreign currency, income deriving from revaluation of plan assets relating to defined benefit plans for employees and gains from derivative financial instruments recognized in the statement of income. Interest income is recognized as accrued, using the effective interest method. Dividend income is recognized on the date the Group is granted the right to receive the payment. If a dividend is received in respect of marketable shares, the Group recognizes dividend income on the ex-dividend date.

Note 3 - Significant Accounting Policies (cont'd)

P. Financing Income and Expenses (cont'd)

Financing expenses include interest on loans received, changes in the time value of provisions, changes in the fair value of financial assets presented at fair value through the income statement, dividends paid on preferred shares classified as a liability, costs in respect of securitization transactions, losses from impairment of value of certain financial assets, losses from derivative financial instruments, changes due to the passage of time in liabilities in respect of defined benefit plans for employees and income deriving from revaluation of the assets of a defined benefit plan for employees. Credit costs, which are not capitalized, are recorded on the income statement using the effective interest method.

Gains and losses from exchange rate differences are reported on a net basis.

Q. Taxes on Income

Taxes on income include current and deferred taxes. Taxes on income are recorded in the income statement unless the tax originated in a transaction or event that is recognized directly in shareholders' equity. In these cases, the taxes on income are charged to shareholders' equity.

The current tax is the amount of tax that is expected to be paid on the taxable income for the year, which is calculated according to the tax rates in effect according to the law that was finally legislated or effectively legislated as at the balance sheet date, and includes changes in tax payments attributed to prior years.

Recognition of deferred taxes is according to the balance sheet approach, relating to temporary differences between the book values of the assets and liabilities for purposes of financial reporting and their value for tax purposes. The Corporation does not recognize deferred taxes for the following temporary differences: initial recognition of goodwill, initial recognition of assets and liabilities for transactions that do not constitute a business combination and do not impact the accounting income and the income for tax purposes, as well as differences deriving from investments in subsidiary and associated companies, if it is not expected that they will reverse in the foreseeable future. The deferred taxes are measured according to the tax rates that are expected to apply to the temporary differences at the time they are realized, on the basis of the law that was finally legislated or effectively legislated as at the balance sheet date. The Corporation offsets deferred tax assets and liabilities if there is an enforceable legal right to offset current tax assets and liabilities and they are attributed to the same taxable income and are taxed by the same tax authority for the same assessed company or different companies that intend to settle current tax assets and liabilities on a net basis or if the tax assets and liabilities are settled concurrently.

A deferred tax asset is recognized in the books when it is expected that in the future there will be taxable income against which the temporary differences can be utilized. Deferred tax assets are examined at each balance sheet date and, if it is not expected that the related tax benefits will be realized, they are reduced.

The Group could become liable for additional taxes in a case of distribution of intercompany dividends between the Group companies. These additional taxes were not included in the financial statements in light of the policy of the Group companies not to cause distribution of a dividend that involves additional taxes to the recipient company in the foreseeable future.

Note 3 - Significant Accounting Policies (cont'd)

Q. Taxes on Income (cont'd)

In cases where one of the Group companies is expected to distribute a dividend out of earnings involving additional tax to the recipient company, such company records a provision for tax in respect of additional tax for which it may be charged in connection with distribution of a dividend. Deferred tax in respect of transactions between companies in the consolidated report, is recorded based on the tax rate applicable to the acquiring company.

R. Earnings per Share

The Group presents basic and diluted earnings per share data for its ordinary share capital. The basic earnings per share are calculated by dividing income or loss allocable to the Group's ordinary equity holders by the weighted-average number of ordinary shares outstanding during the period. The diluted earnings per share are determined by adjusting the income or loss allocable to ordinary equity holders and the weighted-average number of ordinary shares outstanding for the effect of all potentially dilutive ordinary shares including options for shares granted to employees.

S. Report on Operating Segments

The Corporation elected to make early application of IFRS 8 "Operating Segments" (hereinafter – "the Standard") commencing from January 1, 2007. Pursuant to the Standard, the segment report is made using the "management approach", that is, in accordance with the format of the internal reports provided to the entity's decision makers. Previously, the entity presented segment information based on business sectors and geographic areas. Under the "management approach", the Corporation presents segment information based on the activity areas of the main subsidiaries: ICL, ORL and ZIM.

T. Reclassification

The Corporation reclassified various asset and liability items in the balance sheet as at December 31, 2007, as well as income and expense components in the statement of income for the year then ended in immaterial amounts.

U. Sale of Customer Debts

Sale of financial assets is recognized as a sale where control over the financial asset is transferred in full to an unrelated third party and all the risks and rewards inherent in the asset are transferred to an unrelated third party.

V. Government Grants

Government grants are initially recognized when there is reasonable certainty that they will be received and the Group will comply with the conditions entitling their receipt.

Government grants received for purposes of acquisition of an asset are presented as an offset from the related asset and are recorded on the statement of income on a systematic basis over the useful life of the asset.

Grants received from the Government of Israel in respect of the cost of employing Israeli-resident sailors on Israeli ships are credited against the salary cost.

Note 3 - Significant Accounting Policies (cont'd)

V. Government Grants (cont'd)

Grants received from the Chief Scientist for research and development projects are treated as forgivable loans, in accordance with the provisions of IAS 20. Accordingly, grants received from the Chief Scientist are recognized as liabilities according to their fair value on the date the grants were received unless it was reasonably certain on that date that the amount received would not be returned. The amount of the obligation is re-examined in each period and any changes in the present value of the cash flows, discounted at the original interest of the grant, are recorded in the statement of income.

W. Indices and Exchange Rates

Balances in foreign currency or linked thereto are included in the financial statements based on the representative rates of exchange as at the balance sheet date. Balance linked to the Consumer Price Index (CPI) are included based on the index applicable to each linked asset or liability.

Set forth below is detail regarding the representative exchange rates and the Consumer Price Index:

	Consumer Price Index	**Dollar–Shekel Exchange Rate**	**Dollar–Euro Exchange Rate**
As at December 31, 2008	**110.4**	**3.802**	**0.718**
As at December 31, 2007	106.4	3.846	0.680
The change for they year ended:			
As at December 31, 2008	**3.8%**	**(1.1%)**	**5.6%**
As at December 31, 2007	3.4%	(9.0%)	(10.5%)

W. New Standards and Interpretations not yet Adopted

1. IAS 23, "Credit Costs", amended (hereinafter – "the Standard"). The Standard eliminates the possibility of recording the credit costs as expenses in the statement of income and requires the entity to capitalize to the cost of the asset credit costs that can be directly allocated to the acquisition, construction or development of a qualifying asset. The Standard will apply to annual periods beginning on or after January 1, 2009 and will constitute a change in the Group's accounting policy. Based on the transitional rules, the Group will apply the Standard to qualifying assets, where capitalization of he credit costs in respect thereof will start from the date the Standard enters into effect or thereafter. In the Corporation's estimation, adoption of the Standard will have no impact on its financial statements.

Note 3 - Significant Accounting Policies (cont'd)

W. New Standards and Interpretations not yet Adopted (cont'd)

2. IAS 1, "Presentation of Financial Statements", amended (hereinafter – "the Standard"). The Standard requires collection of information in the financial statements on the basis of common characteristics and presentation of a comprehensive statement of income. The Standard permits presentation of revenues and expense items as well as other total income items in the framework of a single comprehensive statement of income, which includes interim totals or, alternatively, to present two separate statements (a statement of income and afterwards a comprehensive statement of income). The names of some of the financial statements have been changed with the goal of clarifying their purposes (for example, the balance sheet will be called the statement of financial position). The Standard will apply to annual periods beginning on or after January 1, 2009. Early adoption is possible. Application of the Standard is expected to have an impact on the consolidated financial statements. the Group will be required to present a comprehensive statement of income (that will replace the consolidated statement of income and expenses) and a statement of changes in capital as part of the financial statements.

3. Revised IFRS 3 Business Combinations (2008) and Revised IAS 27 Consolidated and Separate Financial Statements (2008) (hereinafter – "the Standards"). The principal relevant revisions in the Standards are as follows:

   a. The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
   b. Transactions resulting in discontinuance of consolidation are to be accounted for at full fair value, so that the residual holding after discontinuance of the consolidation is remeasured on the date of discontinuing the consolidation, at fair value, through profit or loss.
   c. Transactions resulting in the consolidation of financial statements (that were not consolidated before then) are to be accounted for at full fair value, so that the original holding before the consolidation is remeasured on the first date of consolidation, at fair value, through profit or loss.
   d. Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.
   e. Acquisitions of additional shares or partial sales of existing shares, without the Company discontinuing consolidation of the financial statements of the companies that performed the transactions, are to be accounted for so that all the differences deriving from the transactions are included directly in equity (including differences that in the past would have been included in profit or loss or as goodwill).
   f. Transaction costs will be expensed as incurred.
   g. Measurement at fair value of contingent considerations in business combinations with changes in estimates relating to a contingent consideration that is a financial liability being recognized in profit or loss.
   h. Goodwill is not to be adjusted in respect of the utilization of carry-forward tax losses that existed on the date of acquiring businesses.
   i. The attribution of comprehensive income to all the shareholders, even in cases where there is a deficit in the subsidiary's equity.

   The new Standards will apply to annual periods beginning July 1, 2009 and thereafter.

Note 3 - Significant Accounting Policies (cont'd)

W. New Standards and Interpretations not yet Adopted (cont'd)

3. (cont'd)

It is possible to apply these Standards in advance (only both Standards together). Regarding implementation in respect of 2009 or thereafter, the principal revisions of these Standards are to be applied prospectively, meaning in respect of transactions as from the initial date of implementation.

4. Revised IFRS 2 Share-Based Payment (hereinafter – "the Standard") provides that vesting conditions are conditions that determine whether the group is receiving the services that entitle the other party to a share-based payment, and they are restricted to service and performance conditions. Non-vesting conditions will be reflected in the fair value of the share-based payment on the grant date, and after the grant date the group shall not adjust the fair value in respect of these conditions. Furthermore, the Standard specifies the accounting treatment of non-compliance with non-vesting conditions. The Standard shall apply retroactively to annual periods beginning after January 1, 2009 and permits early adoption along with disclosure. In the Corporation's estimation, adoption of the Standard will have no impact on the financial statements.

5. Revised IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements (hereinafter – "the Standards"). The Standards require classifying as equity certain puttable financial instruments, obligations arising on liquidation and instruments requiring the entity to deliver to a third party, only upon liquidation, a pro rata share of the net assets of the entity, in certain circumstances. It also provides disclosure requirements regarding puttable financial instruments that were classified as equity. These Standards shall apply to annual reporting periods beginning on or after January 1, 2009 and early adoption is permitted. In the Corporation's estimation, adoption of the Standards will not have a material impact on its financial statements.

6. In the framework of the Improvements to IFRS Project, in May 2008 the IASB published and approved 35 amendments to various IFRS on a wide range of accounting issues. The amendments are divided into two parts: (1) amendments that result in accounting changes for presentation, recognition and measurement purposes and (2) terminology or editorial amendments that are expected to have either no or only a minimal effect on accounting.

Most of the amendments shall apply to periods beginning on or after January 1, 2009 and permit early adoption, subject to the specific conditions of each amendment and subject to the transitional provisions relating to a first-time adopter of IFRS.

Presented hereunder are the amendments that may be relevant to the Group and are expected to have an effect on the financial statements:

Note 3 - Significant Accounting Policies (cont'd)

W. New Standards and Interpretations not yet Adopted (cont'd)

6. (cont'd)

Revised IAS 28 Investments in Associates (hereinafter – "the Amendment"). In accordance with the amendment to IAS 28, an investment in an affiliate shall be tested for impairment with respect to the overall investment. Accordingly, an impairment loss recognized on the investment shall not be specifically allocated to the goodwill included in the investment but to the overall investment, and therefore it will be possible to reverse the full amount of an impairment loss that was recognized in the past when the conditions for reversal of IAS 36 are met. The Amendment can be implemented retroactively or prospectively as from the financial statements for periods beginning on January 1, 2009. Early application is permitted with appropriate disclosure. In the Corporation's estimation, adoption of the Standards will not have a material impact on its financial statements.

IAS 19, Employee Benefits, Amended (hereinafter – "the Standard"). Pursuant to the amendment to IAS 19, a group of other long-term benefits will also include employee benefits where the entitlement thereto occurs in the short-term but the expected realization date is more than one year after the end of the period conferring the benefit, for example, accumulated benefits in respect of vacation and illness expected to be utilized in a period of more than one year after the balance sheet date. From here on, these benefits will require recognition in the financial statements based on an actuarial calculation, taking into account the future salary and discounting to present value. The amendment will be applied retrospectively commencing with the financial statements for periods commencing on January 1, 2009. Early adoption is possible. The Corporation is examining the impact of the amendment on its financial statements.

7. Items Eligible for Hedging, Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" (hereinafter – "the Amendment"). The Amendment makes clear that an entity may designate as a hedged item changes in cash flows or fair value of a one-sided risk, meaning the risk of exposure to changes above or below a specified price or other defined variable. The Amendment also clarifies that inflationary components can be designated as a separate risk, on the condition that they form a contractually specified portion of the cash flows of an inflation-linked debenture, so that they are separately identifiable and reliably measurable, and if the other cash flows of the instruments are not affected by the inflationary component.

   The Amendment is effective retrospectively for annual periods beginning on or after July 1, 2009, with earlier application permitted, together with appropriate disclosure. In the Corporation's estimation, adoption of the Standards will not have a material impact on its financial statements.

8. IFRS 7 "Financial Instruments: Disclosures" (hereinafter – "the Standard"). The Standard expands the required disclosures in connection with measurement of financial instruments in accordance with fair value, particularly for financial instruments whose fair value is measured by means of valuation techniques. In addition, the Standard improves the required disclosures regarding liquidity risk. The Standard is to be applied prospectively for annual periods commencing on January 1, 2009 and thereafter. Early application is possible along with disclosure thereof. The Corporation is examining the impact of the Standard on its financial statements.

Note 3 - Significant Accounting Policies (cont'd)

W. New Standards and Interpretations not yet Adopted (cont'd)

9. IFRIC 18 "Transfers of Property from Customers" (hereinafter – "the Commentary"). The Commentary deals with the accounting treatment of transfers of items of property, plant and equipment from customers to the reporting entity that are used to connect the customer to a network or that permit the receipt of goods or services, or to provide the customer continuous access to such goods or services or both. The Commentary provides guidelines regarding recognition of property, plant and equipment and the manner of its measurement on the initial recognition date, as well as guidelines with respect to the manner of income relating to receipt of the property. The Commentary will apply to transfers of property from customers received by the reporting entity commencing from July 1, 2009, on a prospective basis. Early application is possible subject to fulfillment of certain conditions.

Note 4 – Determination of Fair Value

As part of its accounting policies and disclosure requirements, the Group is required to determine the fair value of both financial and non-financial assets and liabilities. The fair values have been determined for purposes of measurement and/or disclosure based on the following methods. Additional information regarding the assumptions used in determining the fair values is disclosed in the notes relating to that asset or liability.

A. Property, plant and equipment

The fair value of fixed assets recognized in a business combination is based on the cost model or on the market value model. According to the cost model, the fair value of the fixed assets is based on the depreciated replacement value of the item measured. According to the market value model, the fair value is based on the sale price determined in sale transactions of similar assets, while performing adjustments applicable to the sold asset items and the asset item acquired in the business combination.

B. Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

Intangible assets received as consideration for providing construction services in a service concession arrangement are measured at fair value upon initial recognition, estimated by reference to the fair value of the construction services provided. When the Group receives an intangible asset and a financial asset as consideration for providing construction services in a service concession arrangement, the Group estimates the fair value of the intangible assets as the difference between the fair value of the construction services provided and the fair value of the financial asset received (see also reference to determination of fair value of trade and other receivables).

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

Note 4 – Determination of Fair Value (cont'd)

C. Inventory

The fair value of inventories acquired in a business combination is determined as follows:

(1) Finished goods inventories – on the basis of the estimated selling price of the products in the ordinary course of business, less the estimated costs of sale and of preparing it for sale as well as a reasonable margin in respect of the efforts required for completion and sale of the inventories.

(2) Inventory of work-in-progress – determined on the basis of estimates described in Section 1 above, less costs required for its completion.

(3) Inventory raw materials – based on replacement value.

D. Investments in marketable securities

The fair value of financial assets classified as available-for-sale and of securities held for trade is determined based on their stock market price at date of the report.

E. Derivatives

The fair value of forward contracts on foreign currency is determined by using trading software based on their market price. The market price is determined is determined by averaging the exchange rate and the appropriate interest coefficient for the period of the transaction and the relevant currency index.

The fair value of currency options is determined by using trading software based on the Black and Scholes model, taking into account the intrinsic value, standard deviation and the interest rates.

The fair value of interest swap contracts is determined by using trading software based on market price determined by discounting the estimated amount of future cash flows on the basis of terms and length of period to maturity of each contract, while using market interest rates of similar instruments at date of measurement.

The fair value of foreign currency and interest swaps is based on the market prices and discounting the future cash flows on the basis of the terms and length of the period to maturity of each transaction, while using market interest rates of a similar instrument as at the measurement date.

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

Future contracts on energy prices are presented at their fair value, determined by using trading software that quotes the prices of products on an ongoing basis.

The market prices are found by means of observed data in trading systems and comparison with bank quotes for similar transactions.

Note 4 – Determination of Fair Value (cont'd)

F. Non-derivative financial liabilities

The fair value, which is determined for disclosure purposes, is determined based on the activity in the market in connection with marketable debentures, while for non-marketable debentures it is determined based on the present value of the future cash flows in respect of the principal and interest components, discounted at the market rate of interest as at the reporting date.

G. Share-based payment transactions

The fair value of employee share options and of share appreciation rights is measured using the Black and Scholes model. The model's assumptions include the share price on the measurement date, exercise price of the instrument, expected volatility (based on a weighted-average if the historic volatility adjusted for changes expected due to publicly available information), the weighted-average expected life of the instruments (based on past experience and the general behavior of the option holders), expected dividends, and the risk-free interest rate (based on government debentures). Service and non-market performance conditions attached to the transactions are not taken into account in determining the fair value.

H. Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, but including receivables pursuant to concession agreements, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. In periods subsequent to the initial recognition, the fair value of trade and other receivables is determined for disclosure purposes only. Nonetheless, generally the credit period is short and constitutes the usual credit period in the industry. In light of this, the future proceeds are not discounted.

Note 5 - Cash and Cash Equivalents

	As at December 31	
	2008	**2007**
	$ millions	**$ millions**
Balances in banks	**503**	458
Demand deposits	**266**	61
Cash and cash equivalents	**769**	519
Revolving credit from banks used for cash management purposes	**(48)**	(17)
Cash and cash equivalents for purposes of the statement of cash flows	**721**	502

The Group's exposure to interest rate risk and currency risk and a sensitivity analysis with respect to the financial assets and liabilities is detailed in Note 37, regarding "financial instruments".

Note 6 - Securities Held for Trade

	As at December 31	
	2008	**2007**
	$ millions	**$ millions**
Investments in shares	**29**	53
Investments in mutual fund participation certificates	**7**	17
Short-term treasury notes and government debentures	**175**	143
Investments in non-convertible debentures	**145**	211
Other investments	**11**	19
	367	443

Note 7 - Short-Term Investments, Deposits and Loans

	As at December 31	
	2008	**2007**
	$ millions	**$ millions**
Available-for-sale securities	**17**	3
Short-term bank deposits and loans*	**222**	73
Current maturities of long-term deposits	**6**	6
Other	**–**	4
	245	86

* Includes deposits and restricted accounts in the amount of $55 million (December 31, 2007 – $9 million).

Note 8 - Trade Receivables

A. Composition:

	As at December 31	
	2008	**2007**
	$ millions	**$ millions**
On open account	**1,640**	1,765
Post-dated checks	**16**	20
	1,656	1,785
Less – allowance for doubtful debts	**26**	20
	1,630	1,765

B. Discount of trade receivables transaction

Subsidiaries discount (factor) part of their trade receivables and transactions with banks in order to ensure payment of the trade receivables. Transactions wherein trade receivables are factored, as stated, in respect of which there is no right of recourse and all the risks and rewards have been transferred to the banks, are recognized as a sale. Transactions regarding which the banks have a right of recourse are presented in the "trade receivables" category and, concurrently, the credit received from the bank is included in the "short-term credit from banks" category. As at the balance sheet date, the balance of the trade receivables discounted with no right of recourse amounts to about $197 million.

Note 9 - Other Receivables and Debit Balances, including Derivative Instruments

	As at December 31	
	2008	2007
	$ millions	$ millions
Government agencies	**71**	95
Advances to suppliers	**19**	12
Prepaid expenses	**66**	49
Employees	**4**	5
Associated companies	**10**	5
Uncompleted shipping voyages (1)	**83**	36
Accrued income	**4**	4
Derivative instruments used for hedging purposes	**3**	–
Derivative instruments not used for hedging purposes	**143**	69
Assets intended for sale	**25**	–
Other receivables	**142**	132
	570	407

(1) Uncompleted shipping voyages

	As at December 31	
	2008	2007
	$ millions	$ millions
Costs	**369**	379
Net loss recorded based on the percentage of completion of the uncompleted shipping voyages	**(19)**	(20)
	350	359
Less – deposits and revenues receivable	**267**	323
	83	36
After deduction of a provision for losses	**33**	33

Note 10 - Inventories

A. Composition

	As at December 31	
	2008	2007
	$ millions	$ millions
Finished products	**811**	577
Crude oil, fuel products and interim products for refining	**569**	1,043
Work in progress	**234**	173
Raw and auxiliary materials	**239**	202
Maintenance materials and spare parts	**106**	100
	1,959	2,095
Less: long-term inventory (presented in non-current assets)	**51**	31
	1,908	2,064
Includes inventory in transit	**45**	154

Note 10 – Inventories (cont'd)

B. Provision for decline in value

1. Following a sharp decline in prices of certain fertilizer products that began in the reported period, ICL included in the reporting period a provision for impairment of inventories in the amount of US$164 million, in order to state the inventories at their realizable value, which is lower than cost. The decline in value was recognized in the statement of income in the "cost of sales" category.

2. As a result of the wide fluctuations in the prices of crude oil and its related products, ORL recorded a loss from decline in value, as at December 31, 2008, in the amount of $198 million, which was partially offset mainly by inventory hedges in the futures' market, in the amount of $14 million. The loss reflects the difference between the cost of the inventory and its net realization value as at the date of the report. The decline in value was recognized in the statement of income in the "cost of sales" category.

3. As a result of changes in the economic environment, subsequent to the balance sheet date, there were significant fluctuations in the price of crude oil and its related products. The price of oil, which was $36.5 per barrel, increased to $51 per barrel proximate to the publication date of the financial statements. As a result of the above-mentioned changes, ORL is expected to record income of about $85 million (before taxes) in respect of the inventory balance as at the balance sheet date, which was realized, for the most part, in January and February 2009.

Note 11 - Investments in Investee Companies

A. Condensed financial data for associated companies and proportionately consolidated companies

Set forth below is financial data with respect to associated companies and proportionately consolidated companies, without adjustment for the rates of ownership held by the Group:

	Associated companies		Proportionately consolidated companies	
	As at December 31		As at December 31	
	2008	2007	2008	2007
	$ millions	$ millions	$ millions	$ millions
Current assets	**1,032**	1,310	**578**	466
Non-current assets	**2,743**	3,433	**1,144**	891
Total assets	**3,775**	4,743	**1,722**	1,357
Current liabilities	**829**	786	**714**	271
Non-current liabilities	**1,921**	2,354	**633**	627
Total liabilities	**2,750**	3,140	**1,347**	898

Note 11 - Investments in Investee Companies (cont'd)

A. Condensed financial data for associated companies and proportionately consolidated companies (cont'd)

	Associated companies		Proportionately consolidated companies	
	For the year ended December 31		For the year ended December 31	
	2008	2007	2008	2007
	$ millions	$ millions	$ millions	$ millions
Revenues	**2,091**	1,998	**1,493**	1,012
Expenses	**2,136**	2,072	**1,529**	970
Income (loss) for the year	**(45)**	(74)	**(36)**	42

B. Composition of the investments in associated companies

	As at December 31	
	2008	2007
	$ millions	$ millions
Investment in shares:		
Original cost	**737**	608
Group's share in losses from the acquisition date less dividend received	**(116)**	(50)
Translation adjustments	**(16)**	15
Provision for decline in value	**(12)**	–
	593	573
Other investments:		
Convertible debentures	**3**	22
Capital notes, loans and other long-term debit balances	**30**	49
	33	71
Total	**626**	644

C. Additional information

1. Better Place PLC, LLC (hereinafter – "Better Place")

In 2007, the Corporation's Board of Directors approved participation in a venture for operation of electric-powered vehicles in the amount of $100 million, which will be concentrated, among other things, in the first stage, in establishment of a charging network for electric-powered vehicles (out of the amount of $200 million to be invested in the venture in the first stage by various investors), in exchange for about 33.33% of the rights in the vehicle venture. In January 2008, agreements were signed relating to the investment in the venture between the Corporation, additional investors and the initiator. During the period of the report, the amount of about $23 million was transferred to Better Place.

Note 11 - Investments in Investee Companies (cont'd)

C. Additional information (cont'd)

1. <u>Better Place PLC, LLC (hereinafter – "Better Place")</u> (cont'd)

Subsequent to the balance sheet date, on January 20, 2009, an additional amount of $20 million was transferred to Better Place. The Corporation's Board of Directors decided to continue investing additional amounts in Better Place up to an investment by the Corporation of $100 million, subject to a work plan and milestones.

2. <u>Chery Quantum Auto Co. Ltd. (hereinafter – "Joint Venture")</u>

In February 2007, a wholly owned U.S. subsidiary of the Corporation, Quantum (2007) LLC (hereinafter – "Quantum"), signed a long-term agreement for establishment of a joint venture with a Chinese vehicle manufacturer – Chery Automobiles Limited (hereinafter – "the Joint Venture"), pursuant to which the Corporation will invest, through Quantum $225 million in exchange for 45% of the Joint Venture's capital. In addition, the Corporation agreed to provide guarantees to the Joint Venture in a total cumulative amount of about $180 million, for purposes of receipt of financing by the Joint Venture for implementation of the first stage of the Joint Venture. The investment in the Joint Venture's capital and the guarantees will be provided to the Joint Venture based on the progress of development of the Joint Venture in the years 2007 through 2010.

The Joint Venture is intended to engage in the manufacture of vehicles while using advanced technology, and marketing and distribution of the vehicles worldwide under a quality brand name. The required technology for manufacturing the Joint Venture's vehicle models will be transferred to the Joint Venture in accordance with a licensing agreement to be signed by the parties. The parties agreed to look into expanding the cooperation between them to other joint ventures as well.

Establishment of the Joint Venture was conditioned on approval of the establishment of the Joint Venture and on approval of the agreement and Articles of Association of the Joint Venture by the competent authorities of China, as well as on receipt of a business license. On December 19, 2007, approval of the Chinese authorities was received. In December 2006, the Corporation deposited the amount of $200 million in trust with an international banking institution. Upon receipt of the approval, as stated, the amount of $200 million was transferred to the investment account in the Joint Venture.

Subsequent to the balance sheet date, in February 2009, the Joint Venture's Board of Directors adopted an updated business plan for the Joint Venture whereby the Joint Venture is expected to concentrate already in this stage on development and preparation for production – both of a regular motorized vehicle and of electric-powered vehicles. The Joint Venture's business plan was adapted for the main changes in the global automotive industry, while increasing the weight and importance of the electric-powered vehicle and its integration as part of the Joint Venture. The Joint Venture's cash requirements for 2009 and 2010 were updated in light of the changes in the said business plan. Set forth below are the highlights of the decisions made regarding change of the Joint Venture's capital structure, which were approved by the Joint Venture's Board of Directors and also received the approval of the Board of Directors of Israel Corporation:

Note 11 - Investments in Investee Companies (cont'd)

C. Additional information (cont'd)

2. Chery Quantum Auto Co. Ltd. (hereinafter – "Joint Venture") (cont'd)

a. Change of the structure of the holdings in the Joint Venture's capital – the rate of holdings of the parties in the Joint Venture's capital will change such that the parties will hold the Joint Venture in equal shares, as follows: Quantum a 100% subsidiary of the Corporation – will hold 50% of the Joint Venture's capital (in place of 45% that it presently holds); Chery will hold 50% through a wholly owned subsidiary (in place of 55% that it presently holds).

b. Reduction of the number of models being developed and deferral of the need to set up a designated plant while relying on Chery's (the partner in the Joint Venture) current production capacity, resulted in the investment requirements of the parties in the Joint Venture being reduced in the present stage from about $900 million to an aggregate amount of about $500 million with no need for the parties to the Joint Venture to provide additional guarantees. It is noted that as a result of the updated agreements, Quantum will not be required to provide its share in the guarantees, in the amount of about $180 million as was originally agreed at the time the Joint Venture was set up. (It is further pointed out that the required amounts are denominated in the Chinese currency (RMB) and are presented in this report in dollar approximates).

c. Quantum will not be required invest an additional amount during 2009 and 2010 in excess of the amount of about US$200 million that was already invested by it in the Joint Venture in the past. Investment of an additional about US$40 million, if and to the extent there will be a need for it pursuant to the Joint Venture's business plan, will be possible at the earliest in 2011.

The above-mentioned decisions were recorded in a shareholders' agreement that is to be signed between the parties to the Joint Venture, wherein it will be provided that the Joint Venture's Articles of Association and the Joint Venture agreement will be amended to reflect the said decisions including any change deriving therefrom, and that after their revision these documents will be submitted for approval by the relevant authorities in China.

3. Petrotech AG (hereinafter – "Petrotech")

On December 4, 2008, I.C. Green Energy Ltd. (hereinafter – "I.C. Green"), a company wholly owned by the Corporation, acquired about 43% of the shares of Petrotech for a consideration of about $17 million (€12 million) including the transaction costs. The excess cost created on the acquisition amounted to about $11 million, which was allocated to goodwill. In light of Petrotech's financial situation and due to a sharp drop in the share price on the stock market as at the balance sheet date, the balance of the goodwill created on the acquisition, in the amount of $12 million, was written off.

As a result of this acquisition, I.C. Green submitted a request to the Federal Financial Supervisor Authority (hereinafter – "BarFin"), an entity that is comparable to the Securities Authority in Germany, to receive an exemption from making a tender offer to the public in order to make an investment of shareholders' equity, long-term loans and guarantees in Petrotech.

Note 11 - Investments in Investee Companies (cont'd)

C. Additional information (cont'd)

3. Petrotech AG (hereinafter – "Petrotech") (cont'd)

Subsequent to the balance sheet date, in February 2009, BarFin approved I.C. Green's request to receive an exemption from making a tender offer in connection with Petrotech's shares. The said exemption is contingent on I.C. Green providing to Petrotech, on the dates provided, amounts that I.C. Green itself offered to make available Petrotech, as shareholders' equity, long-term loans and guarantees, in the amount of about €15 million – in order to advance Petrotech's business activities and as part of implementation of the plan of reorganization.

As at the date of this report, I.C. Green transferred about €7.6 million to Petrotech by means of loans, where the amount already invested by I.C. Green, as stated, will be considered as part of the required investment in accordance with the conditions of the exemption, as stated above.

Petrotech is a company whose shares are traded on the stock in Germany, and that is engaged in the production, marketing, and sale of bio-diesel, which is based mainly on recycling of used food oil, and which owns two plants in Germany.

4. Tower Semiconductor Ltd. (hereinafter – "Tower")

a. In March 2007, Tower raised the amount of about $29 million from institutional investors in the United States, in a private issuance of shares and options. In addition, Tower granted the institutional investors a short-term right to make an additional investment in about 19 million of Tower's shares at an exercise price per share equal to the closing share price on the NASDAQ on the day prior to the issuance. As a result of the issuance of shares, the conversion of convertible debentures and exercise of the options in 2007, and taking into account the Corporation's investment in the capital notes, the Corporation's share in Tower decreased to about 33.1% and the Corporation realized a capital gain in 2007 of about $7 million.

b. In September 2007, an agreement was signed between the Corporation and Tower pursuant to which the Corporation will participate in providing credit to Tower in an amount of up to $30 million for purposes of acquisition of advanced equipment. The credit to be provided by the Corporation constitutes part of the amounts to be raised by Tower for purposes of acquisition of equipment, including credit in the amount of $30 million, which is to be provided to Tower by the banks, with which a memorandum of understanding was also signed. The amount of the credit to be provided by the Corporation as stated may be utilized by Tower from time to time against an order placed for equipment and in an amount equal to the amount provided from time to time by the banks. The loan will bear interest at the same rate as the rate to be paid to the banks and will entitle the Corporation to customary commissions. In addition, options will be issued by Tower to the Corporation exercisable up to March 2010 at an exercise price of $2.04 per share. The amounts of the credit utilized will be repayable within two years and no later than March 2010. In October 2007, the Corporation provided Tower a loan, in accordance with the above-mentioned agreement, in the amount of $14 million. In January 2008, the Corporation transferred an additional $16 million.

Note 11 - Investments in Investee Companies (cont'd)

C. Additional information (cont'd)

4. Tower Semiconductor Ltd. (hereinafter – "Tower") (cont'd)

c. In December 2000, Tower received a Letter of Approval for an investment grant for FAB2 that ended on December 31, 2005. Tower is negotiating with the Investments Center for receipt of an expansion plan for FAB2 commencing January 1, 2006. The plan was submitted in April 2005. Tower's management is unable to estimate if and when a Letter of Approval, as stated, will be received.

In May 2008, the company filed a petition in the Supreme Court sitting as the High Court of Justice (hereinafter – "the High Court of Justice") requesting that the company's expansion plan be brought for approval expediently before the appropriate governmental entities. In July 2008, the High Court of Justice ruled that the claim be transferred to a panel of three justices. A hearing was set for October 2009. In August 2008, the Investments Center rejected the company's request for an expansion plan. The company filed an appeal of this decision with the Minister of Finance and the Minister of Industry, Commerce and Employment, which is slated to be heard by the Appeals Committee on a date that has not yet been set.

Tower's Management is unable to assess if and when a Letter of Approval, as stated, will be received.

d. In May 2008, Tower signed an agreement for acquisition of shares of Jazz Technologies (hereinafter – "Jazz"), a leading company in the area of production of products having significant analogue components. Pursuant to the agreement, Tower will acquire shares of Jazz in a share swap transaction based on a value of Jazz's equity of $40 million, where each Jazz share will be converted against 1.8 Tower shares. In September 2008, the merger transaction was completed.

e. On August 19, 2008, a memorandum of understanding was signed between Tower and Bank Leumi Ltd. and Bank Hapoalim Ltd. (hereinafter – "Banks") and the Corporation, for restructuring Tower's debts in such a manner that there will be a significant decline in the scope of its debts to the Banks and to the Corporation. In September 2008, the merger transaction was completed. The highlights of the arrangement are set forth below:

(1) Highlights of the Arrangement with the Banks:

A. $200 million of Tower's debt to the Banks was converted into capital notes, exercisable for shares of Tower. The credit agreements signed with the Banks are to be amended accordingly. The conversion was made on the basis of a price per share of $1.42, which represents two times the average closing price per share on NASDAQ during the ten trading days prior to August 7, 2008 (which was the date of Tower's first public announcement regarding its debt restructuring negotiations).

Note 11 - Investments in Investee Companies (cont'd)

C. Additional information (cont'd)

4. Tower Semiconductor Ltd. (hereinafter – "Tower") (cont'd)

e. (cont'd)

(1) Highlights of the Arrangement with the Banks: (cont'd)

B. Commencement of the repayment to the Banks of the remaining principal of the loans after the conversion (approximately $200 million) was postponed until September 2010.

C. The interest payments of Tower to the Banks pursuant to the credit agreements, originally due in the four quarters beginning September 30, 2008, were postponed and will be added to the debt principal, the payment of which is postponed such that it will begin in September 2010.

D. The banks waived Tower's compliance with financial covenants regarding the last two quarters of 2008.

(2) Highlights of the Arrangement with the Corporation:

A. $50 million of Tower's debt to the Company was converted into capital notes, exercisable for shares of Tower. The said debt includes a loan of $30 million and $20 million of debentures (principal and accrued interest) that were issued to the Corporation in 2005. The debt conversion was on the basis of the same price per share of the said debt conversion of the Banks.

B. The Corporation invested $20 million in Tower against issuance of capital notes exercisable for 28,169,014 shares of Tower, where the number of shares was calculated based on the average price per Tower share on NASDAQ in the ten trading days prior to August 7, 2008 (which was the date of Tower's first public announcement regarding its debt restructuring negotiations).

After entry of the agreement into effect and after acquisition of the Jazz shares, the Corporation's share in Tower (assuming the capital notes are converted into shares) fell to about 30% of Tower's capital and the Corporation realized a capital gain of about $25 million.

Note 11 - Investments in Investee Companies (cont'd)

C. Additional information (cont'd)

4. Tower Semiconductor Ltd. (hereinafter – "Tower") (cont'd)

e. (cont'd)

(2) Highlights of the Arrangement with the Corporation: (cont'd)

C. The Corporation undertook to provide Tower, from time to time, for a period ending on December 31, 2009, amounts the sum of which will not exceed $20 million. The said amounts will be invested in Tower in order to assist it with its cash flows in certain cases and in circumstances in which Tower will need such amounts. The said aggregate amount may be reduced by the amount Tower will manage to raise during the said period. In exchange for each payment by the Corporation, as aforesaid, Tower will issue to the Corporation capital notes, exercisable for shares of Tower. The conversion will be based on the lower of: (i) the average price per share in the last ten trading days prior to the date on which each mentioned payment is made, or (ii) the share price as stated in Section B. above, but only up to the level of the par values of the shares.

Subsequent to the balance sheet date, on January 7, 2009, the amount of $20 million was transferred to Tower against issuance of capital notes convertible into shares of Tower. The number of shares was calculated based on a price per share of NIS 1, which is the par value of Tower's shares. After the investment, the Corporation's share in Tower (assuming the capital notes are converted into shares) rose to about 39.3% of Tower's capital.

5. Generandes Peru S.A. (hereinafter – "Generandes")

As part of acquisition of Inkia Energy Ltd. (hereinafter – "Inkia"), as stated in Note 12.1.D, below, Inkia acquired, indirectly, Generandes and its subsidiary Edegel S.A.A. (hereinafter – "Edegel"). The above-mentioned companies are associated companies of the Group and are traded on the stock exchange in Peru. Pursuant to Peru law, in certain cases a purchaser of companies registered on the stock exchange in Peru is required to make a tender offer to the minority. Inkia requested from the Peru Securities Authority (hereinafter – "the Authority") an exemption from making a tender offer, to the extent such requirement actually applies to it under Peru law.

In the estimation of Inkia's management, it is expected that it will obtain a waiver from execution of a tender offer in connection with its holdings in Edegel and it might also be able to obtain a waiver from execution of a tender offer in connection with its holdings in Generandes. As at the date of the financial statements, Inkia signed an agreement with Endesa, the main shareholder of Generandes whereby, among other things, Endesa agreed to make the tender offer with respect to Edegel's shares, Endesa will assist Inkia in obtaining the exemption from making a tender offer with respect to Edegel's shares and Inkia and Endesa made a reciprocal waiver of execution of a tender offer in connection with Generandes' shares. In the estimation of Inkia's management, this agreement will, apparently, exempt Inkia from its obligation to make the above-mentioned tender offer.

Note 11 - Investments in Investee Companies (cont'd)

D. Details regarding securities registered for trading

	As at December 31, 2008		As at December 31, 2007	
	Book value	Market value	Book value	Market value
	$ millions	$ millions	$ millions	$ millions
Shares (*)	**30**	**26**	17	155
Convertible debentures	**3**	**3**	22	26
	33	**29**	39	181

(*) Includes shares and convertible capital notes and the market value of shares that will derive from conversion of such capital notes, assuming they are converted.

E. Details regarding goodwill deriving from acquisition of investments in associated companies

	As at December 31, 2008		As at December 31, 2007	
	Original amount	Balance	Original amount	Balance
	$ millions	$ millions	$ millions	$ millions
In respect of associated companies	**75**	**74**	60	59

F. Details regarding investment in non-convertible debentures, loans and long-term debit balances

Details of linkage bases and interest terms:

	Weighted average interest rate at 12/31/08	As at December 31	
		2008	2007
	%	$ millions	$ millions
In Israeli currency			
Linked to the CPI		**–**	14
Unlinked	4.3	**4**	–
In foreign currency			
U.S. dollars	2.3	**2**	15
Euro	7.3	**24**	16
Other		**–**	4
		30	49

Note 11 - Investments in Investee Companies (cont'd)

F. Details regarding investment in non-convertible debentures, loans and long-term debit balances (cont'd)

Set forth below is detail based on repayment dates of investments in non-convertible debentures, loans and other long-term debits, after deduction of current maturities:

	As at December 31
	2008
	$ millions
More than 5 years	**6**
No fixed repayment date	**24**
	30

G. Details regarding dividends received from associated companies

	For the year ended December 31	
	2008	2007
	$ millions	$ millions
From associated companies	**21**	24

H. Details regarding convertible securities in investee companies

Tower has 4 series of debentures convertible into its shares and options for Tower shares. The debentures and some of the options are traded on the Tel-Aviv Stock Exchange.

1. Set forth below are the terms of the convertible debentures:

	Linkage basis	Stated interest rate	Repayment terms	Comments
A.	Index	4.7%	4 equal annual payments beginning from January 2006	Fully repaid in January 2009.
B.	Index	5%	Single payment in January 2012	The interest is payable on redemption, held in part by the Corporation.
C.	Index	0%	Single payment in December 2011	Upon repayment a premium of 37% is to be paid.
D.	Index	8%	Single payment in December 2012	

In addition, Jazz has debentures convertible into shares of Tower. The debentures bear interest at the annual rate of 8%. The principal is repayable in one lump-sum payment in December 2011.

Note 11 - Investments in Investee Companies (cont'd)

H. Details regarding convertible securities in investee companies (cont'd)

2. Presented below are the terms of the options:

	Number of options (in millions)	Average exercise price
Non-marketable options		
To employees and directors	29.3	$1–$2
To employees and directors	3.1	$1–$0.32
To employees and directors	2.7	$2–$25
To banks	11.6	$1.8
To the Corporation	2.9	$2.04
To other private investors	9.4	$2.04
Options issued as part of the merger with Jazz	59.5	$2.78
Marketable options		
Options – Series 4	5.5	NIS 7.4, linked to the index
Options – Series 5	5.2	NIS 9.48, linked to the index
Options – Series 6	2.6	$2.04

3. In addition, in 2008 Tower issued convertible capital notes to banks and to the Corporation – see Note 11(c)4(E).

4. If all the convertible securities are converted into shares, including the convertible capital notes Tower issued to the Corporation, the Corporation's share in Tower will decline from about 30% to about 21%.

Note 12 - Business Combinations

1. Investments

A. Acquisition of shares of Oil Refineries Ltd. (hereinafter – "ORL")

1. On February 18, 2007, the Corporation signed a binding memorandum of understanding with Scailex Corporation Ltd. and a company controlled by it, PCH (hereinafter – "the Scailex Group"), pursuant to which the Corporation and PCH will submit a joint tender for acquisition of ORL shares.

   On February 21, 2007, the Corporation, together with PHC, acquired 46% of the issued share capital of ORL in the framework of a public tender offer for a consideration of about $716 million, of which the Corporation's share in the acquisition amounted to about $579 million. The Corporation's direct share constitutes 36.8% of ORL's share capital.

   The acquisition was conditioned on receipt of approval of the Ministers for Control and Holding of the Means of Control in ORL (hereinafter – "the Approval of the Ministers") and approval of the Restrictive Business Practices Authority.

Note 12 - Business Combinations (cont'd)

1. Investments (cont'd)

A. Acquisition of shares of Oil Refineries Ltd. (hereinafter – "ORL")

2. In order to permit the Corporation to submit a separate request for the Approval of the Ministers, on May 10, 2007, the Corporation, PCH and Scailex agreed to cancel the Memorandum. Concurrent with cancellation of the Memorandum, the Corporation made a commitment to PCH and Scailex in the framework of an irrevocable letter of undertaking (hereinafter – "the Letter of Undertaking") as detailed below. PCH and Scailex agreed to the commitment and undertook to act in accordance therewith.

   Set forth below are the highlights of the Letter of Undertaking

   a. If PCH and Scailex receive the required approvals, including every other approval or permit required pursuant to the provisions of any law up to and no later than May 15, 2009 (hereinafter – "the Effective Date"), the Corporation will sign a joint control agreement with them with respect to ORL (hereinafter – "the Control Agreement") in accordance with the language agreed to by the parties and in accordance with the principles detailed in Section 3, below.

   b. Sale and transfer of ORL's shares held by PCH to a third party or sale of the control of PCH by Scailex to a third party will confer on the Corporation a right of first refusal to acquire all ORL's shares or the relevant securities pursuant to the provisions determined in the Control Agreement.

   c. If PCH sells to a third party all its shares in ORL (and the Corporation does not exercise its right of first refusal), or if Scailex sells to a third party the control of PCH, and if the third party receives all the required approvals up to and no later than the Effective Date, the Corporation will sign a joint control agreement with the third party and the third party will "step into the shoes" of PCH and Scailex for all intents and purposes.

   d. Exercise of the call option is to take place by the earlier of the Effective Date or 120 days from receipt of the required approvals.

   e. Up to the signing of the Control Agreement, the Corporation will be entitled to utilize its power of control in ORL (subject to its having received the Approval of the Ministers), based on its discretion and without limitations.

3. Highlights of Control Agreement

   Set forth below are the highlights of Control Agreement to be signed by the Corporation, on the one side, and by PCH and Scailex (hereinafter – "the Scailex Group"), on the other side, upon receipt of the required approvals by the parties thereto and which will enter into effect on its signing date:

Note 12 - Business Combinations (cont'd)

1. Investments (cont'd)

A. Acquisition of shares of Oil Refineries Ltd. (hereinafter – "ORL")

3. Highlights of Control Agreement (cont'd)

a. Definition of control shares in ORL – the control shares will constitute 50.25% of ORL's issued and paid-up shares (hereinafter – "the Control Shares"). As at the date of this report, the Corporation holds about 77.9% of the Control Shares and PCH holds 22.1% of the Control Shares. It is also noted that in addition to the Control Shares, the Corporation and PCH acquired additional shares of ORL as indicated in Section 4, below.

b. Call Option – PCH will receive a call option as part of the Control Agreement (hereinafter – "the Call Option") to acquire and receive from the Corporation 230 million shares of ORL (hereinafter – "the Exercise Shares") in such a manner that after exercise of the Call Option the internal ratio of the holdings of the Control Shares in ORL (including 50.25% of ORL's share capital) will be: the Corporation – 55% and PCH – 45%. The price of the Exercise Shares will be the acquisition cost of the Control Shares, that is, NIS 3.3 per share plus linkage differences and linked interest at the annual rate of 5%, to be charged and calculated on a semi-annual basis from the acquisition date, less dividends distributed (if any) plus CPI linkage differences and interest as stated.

c. Freeze Period – the agreement provides a "freeze" period of 6 months commencing from the signing date of the Control Agreement, wherein transfer of the Control Shares by any of the parties is prohibited.

d. Right of First Refusal

1) The Scailex Group will grant the Corporation a right of first refusal to acquire and receive all the Control Shares it offers for sale to a third party commencing from the signing date of the Control Agreement, whereas the Corporation will grant the Scailex Group a right as stated from the exercise date of the Call Option. The Right of First Refusal will also apply, with certain changes, to a case wherein a lien (if any) applying to the Control Shares is realized by the lien-holder with respect to these shares.

2) Transfer of control of PCH and Scailex (subject to certain conditions) will be considered grounds for exercise of the Corporation's right of first refusal, where in a case of change in control of PCH the Corporation will have the right to acquire all the securities constituting the subject matter of the transaction for transfer of control of PCH, and in a case of change in control of Scailex or a company controlling Scailex (except for Israel Petrochemical Works Ltd. and the companies controlling it) the Corporation will have the right to acquire from PCH, ORL's shares at the average market price in the 60 trading days preceding the notification of sale, plus a premium of 15%.

Note 12 - Business Combinations (cont'd)

1. Investments (cont'd)

A. Acquisition of shares of Oil Refineries Ltd. (hereinafter – "ORL")

3. Highlights of Control Agreement (cont'd)

d. Right of First Refusal (cont'd)

3) It is hereby clarified that a party to the Control Agreement shall be permitted to sell and/or transfer all the Control Shares it holds at that time – but not a portion thereof.

e. Right to Join – each party shall have a Right to Join a sale of the other party's Control Shares, subject to the Right of First Refusal not having been exercised. The Corporation's Right to Join will only enter into effect from the date on which PCH duly exercised the Call Option.

f. Buy Me Buy You (BMBY) – each party to the agreement shall have the right to exercise the BMBY with respect to the Control Shares (commencing from the end of the Freeze Period), and pursuant thereto it may offer to acquire from the other party all the Control Shares held by the other party at the price set in the offer or to sell to the other party all the Control Shares it holds at the said price.

g. Appointment of Directors – the parties to the Control Agreement undertake to exercise their voting power at ORL's General Meetings, to select or appoint the members of ORL's Board of Directors, in the following manner:

1) So long as the Call Option has not been exercised, ORL's Board of Directors shall consist of 9 members (including 2 external directors), where the Corporation will recommend 5 directors, PCH will recommend 2 directors and the recommendation with respect to the 2 external directors will be made by agreement between the parties.

2) From the time the Call Option is exercised, ORL's Board of Directors shall consist of 11 members (including 2 external directors), where the Corporation will recommend 5 directors plus 1 external director, and PCH will recommend 4 directors plus 1 external director. In addition, it was determined that the appointment right of each of the parties to the Control Agreement on ORL's Board of Directors, will also relate to all the committees of the Board of Directors except for the Audit Committee and to the extent possible also to the Boards of Directors of ORL's subsidiaries and related companies.

h. Additional appointments – the Control Agreement further provides that from the time the Call Option is exercised, the parties, in their capacity as shareholders of ORL, are to act so that appointment of ORL's CEO, its auditors and its attorneys, as well as its subsidiaries and to the extent possible its related companies – will be made with the agreement of the parties to the Control Agreement.

Note 12 - Business Combinations (cont'd)

1. Investments (cont'd)

A. Acquisition of shares of Oil Refineries Ltd. (hereinafter – "ORL")

3. Highlights of Control Agreement (cont'd)

i. Voting with respect to Certain Matters – the Control Agreement provides that from the time of exercise of the Call Option, a number of matters that if included on the "day's agenda" for decision by the General Meeting of ORL's shareholders, the parties will agree in advance as to the manner of their voting regarding these matters, and absent agreement the manner of their voting will be decided by an agreed-to referee. It was also provided that the parties will act to amend ORL's Articles of Association so that the decision on those agreed-to matters that are passed on for the decision of ORL's Board of Directors, will be transferred for resolution by the General Meeting of ORL's shareholders, or the decision thereof will require a special majority of 75% of the number of directors present. Set forth below is a list of the agreed upon matters: (A) entry of ORL or any of its subsidiaries into new areas of activity; (B) issuance of shares or other securities by ORL or by its subsidiary; (C) change of ORL's Articles of Association and/or of any of its subsidiaries and/or of any of its investee companies; (D) merger or split-up or reorganization of ORL or of any of its subsidiaries; (E) transactions of ORL not in the ordinary course of its business or of any of its subsidiaries or of any of its investee companies with interested parties; (F) appointment of ORL's auditors; (G) liquidation or stay of proceedings in ORL and/or in any of its subsidiaries and/or in any of its investee companies; (H) a material sale or purchase transaction of ORL. Material means – the transaction is capable of having a material impact on its assets or its liabilities or its profits.

j. Dividend Policy – the parties to the Control Agreement will act subject to all law, such that ORL and its subsidiaries will adopt a dividend policy pursuant to which at least 75% of the annual distributable earnings will be distributed every year.

k. Agreement Period – the Control Agreement will enter into effect on its signing date and will terminate on the earlier of (a) the date pursuant to that stated in its provisions, or (b) the date on which a party ceases to hold at least 10% of ORL's issued and paid-up share capital.

l. Additional Provisions – the Agreement includes additional provisions that are customary in agreements of this type, including provisions covering, confidentiality, remedies, non-waiver of rights, arbitration, jurisdiction and etc.

m. Scailex Guarantee – Scailex is a guarantor for all of PCH's liabilities under the Control Agreement.

Note 12 - Business Combinations (cont'd)

1. Investments (cont'd)

A. Acquisition of shares of Oil Refineries Ltd. (hereinafter – "ORL")

4. During February–July 2007, the Corporation acquired additional shares of ORL on the Tel-Aviv Stock Exchange, constituting 8.3% of ORL's share capital, for a price of $138 million. As at the approval date of the financial statements, the Corporation holds about 45.1% of ORL's share capital.

5. On June 28, 2007, the Corporation received approval of the Ministers for the control permit as stated.

6. In the Corporation's consolidated financial statements, ORL's financial statements have been consolidated. ORL's results of operations and cash flows have been included commencing from July 1, 2007.

The excess cost created on the acquisition of ORL amounted to about $336 million. Based on a PPA (Purchase Price Allocation) study performed by an outside appraiser, the excess cost was allocated mainly to property, plant and equipment, deferred taxes and negative goodwill.

All of ORL's identified assets and liabilities were presented at their fair values as at the date of obtaining control over ORL. The difference created due to revaluation of prior acquisitions as at the acquisition date is not material. The balance of the negative goodwill on the original acquisition dates and the Corporation's share in ORL's income in the period up to obtaining control over ORL were recorded to retained earnings. The excess cost after the re-allocation was as follows:

	Book value before acquisition	Adjustment to fair value	Values recognized on acquisition	Amortization years
		$ millions		
Cash and cash equivalents	11	–	11	
Orders backlog	–	10	10	1.5 years
Inventories	822	40	862	0.5 years
Current assets	646	–	646	
Associated companies	60	20	80	
Property, plant and equipment	975	1,124	2,099	Mainly 25 years
Non-current assets	96	–	96	
Current liabilities	(835)	–	(835)	
Deferred taxes	(137)	(298)	(435)	
Debenture and long-term loans	(729)	–	(729)	
Non-current liabilities	(81)	–	(81)	
Minority interest	(447)	(500)	(947)	
Identified assets and liabilities, net	381	396	777	
Negative goodwill		(60)	(60)	
		336	717	

Note 12 - Business Combinations (cont'd)

1. Investments (cont'd)

B. Carmel Olefins Merger

On June 24, 2008, ORL signed an agreement with Israel Petrochemicals Enterprises Ltd. (hereinafter – "IPE"), which was approved by the General Meeting of ORL's shareholders on August 13, 2008.

Pursuant to the agreement, IPE committed to sell to ORL all the shares it owns in Carmel Olefins, constituting 50% of Carmel Olefins' issued share capital, such that following the acquisition ORL will hold all of Carmel Olefins' issued share capital. In consideration for the shares of Carmel Olefins acquired, ORL will issue ordinary shares to IPE, constituting (after the issuance and without dilution), 20.53% of ORL's issued share capital and its voting rights.

On the closing date of the transaction, ORL will sell to IPE all the IPE shares it owns, constituting 12.29% of IPE's share capital, in consideration for $40 million.

Closing of the transaction was subject to meeting a number of preconditions by December 31, 2008, some of which were not met up to that time. Accordingly, the transaction was not closed and the agreement expired.

Since the main reasons forming the basis of the decision of ORL's Board of Directors to approve the merger of Carmel Olefins' activities with ORL are still valid today, ORL and IPE agreed to continue their joint cooperation with the goal of trying to complete the merger transaction, and to the extent it is completed, the matter will be brought before ORL's competent authorities.

C. Agreement with IPE regarding Joint Control over ORL:

1. On August 3, 2008, the Corporation signed an additional letter of undertaking, regarding the signing of an agreement for joint control over ORL, in favor of Israel Petrochemical Enterprises (hereinafter – "Petrochemical") and Petroleum Capital Holdings Ltd. (hereinafter – "Petroleum", Petrochemical and Petroleum jointly – "the Petroleum Group"), 100% of whose issued shares are held by Petrochemical (hereinafter – "the Third Letter of Undertaking"). The Third Letter of Undertaking replaced the Corporation's previous letters of undertaking, dated May 10, 2007 and June 1, 2008, regarding the signing of an agreement for joint control over ORL, which were cancelled, and to which were attached two draft agreements for joint control over ORL, which will become valid subject to the conditions detailed below.

Note 12 - Business Combinations (cont'd)

1. Investments (cont'd)

C. Agreement with IPE regarding Joint Control over ORL: (cont'd)

2. The Third Letter of Undertaking was signed following the agreement dated June 24, 2008, between Petrochemical and ORL (hereinafter – "the COL Agreement"), according to which, among other things, subject to the existence of certain conditions stated in the COL Agreement, Petrochemical would sell and transfer to ORL all its shares in Carmel Olefins Ltd. (hereinafter – "COL"), which constitute 50% of COL's issued share capital, in exchange for an issuance of ORL shares, constituting at that time 20.53% of ORL's issued share capital (hereinafter – "the Share Issuance"). The Third Letter of Undertaking and the attached draft agreements govern the joining of the Petrochemical Group to the control over ORL, upon fulfillment of certain conditions and according to various alternatives, prior to and after the closing of the COL Agreement, and in the event that the COL Agreement is cancelled by both parties or terminated due to non-compliance with the terms for its entry into effect, or due to its breach by one or both of the parties, while the parties do not have any claims for its enforcement (each of the above – "Annulment of the COL Agreement").

3. The Corporation and the Petrochemical Group have mutually undertaken that in the event that the COL Agreement is executed according to its terms, and the Petrochemical Group receives all the approvals required by law to enter into the joint agreement of control over ORL (including control according to the Government Companies Order (Declaration of Vital State Interests in Oil Refineries Ltd.), 2007) (hereinafter – "the Required Authorizations"), up to and not later than five years commencing from one day prior to the date of the Share Issuance (hereinafter – "the Five-Year Period"), then an agreement for joint control over ORL will be signed between the parties (hereinafter – "the Control Agreement After Execution of the COL Agreement") according to the draft attached to the Third Letter of Undertaking, and whose principles are similar to the agreements previously formulated between the parties, as follows:

   3.1 The definition of core control shares in ORL: the core control shares in ORL will comprise 50.25% of the issued and paid-up share capital of ORL after the Share Issuance. The Corporation will hold 55% of the core control shares in ORL, while the Petrochemical Group will hold 45% of the core control shares in ORL. The remaining shares held by the parties will be considered free shares, except regarding their voting power that will be subject to the provisions applicable to the voting of the core control shares.

   3.2 Freeze Period: the agreement establishes a freeze period of six months, commencing from the signing date of the control agreement (hereinafter – "The Freeze Period"), during which the core control shares may not be transferred by either of the parties.

Note 12 - Business Combinations (cont'd)

1. Investments (cont'd)

C. Agreement with IPE regarding Joint Control over ORL: (cont'd)

3. (cont'd)

3.3 Right of First Refusal: the parties will have a Right of First Refusal to purchase and to receive the transfer of all the core control shares offered for sale by the other party (hereinafter – "the Right of First Refusal"). It is hereby clarified that a party to the control agreement will be permitted to sell and/or transfer all, but not part of, the core control shares it holds at that time. The Right of First Refusal will also apply, with certain changes, in the case where a lien on the core control shares (if such a lien exists) is realized by the holder of the lien on these shares.

It was agreed, as part of the Right of First Refusal that a change in the control of Petrochemical or of the Corporation, as defined in the draft agreement and subject to the existence of certain conditions stated in the draft agreement, will confer on the other party the right to purchase the core control shares in ORL of the party in which a change in control was made, at the average market price in the 60 business days prior to the notification regarding the change in control, and with an added premium of 15%. The said right will inure to the Corporation in a case of the transfer of the direct control in Petrochemical, or a change is made in the direct or indirect holdings of the controlling shareholders in Petrochemical, in such a way that David Federman and/or his kin, on the one hand, and Yaakov Gottenstein and/or Alex Pesel, on the other hand, will cease being the holders of the direct or indirect controlling interest in Petrochemical, provided that the core control shares in ORL constitute the main assets of Petrochemical, that is, Petrochemical has no other assets (except for the core control shares, cash and cash equivalents), the value of which according to Petrochemical's last financial reports exceeds $200 million.

3.4 Right to Join: each party will have the right to join a sale of core control shares of the other party, provided that the Right of First Refusal has not been exercised (hereinafter – "the Right to Join").

3.5 Buy Me – Buy You Mechanism: at the end of the Freeze Period, each party to the agreement will have the right to exercise a buy me – buy you mechanism regarding the core control shares, whereby it may offer the other party to purchase all the core control shares held by the other party at a price stated in the proposal, or to sell to the other party all the core control shares it holds at the above stated price (hereinafter – "the Buy Me – Buy You Mechanism").

Note 12 - Business Combinations (cont'd)

1. Investments (cont'd)

C. Agreement with IPE regarding Joint Control over ORL: (cont'd)

3. (cont'd)

3.6 Appointment of Directors: the parties to the control agreement will undertake, as part of the agreement, to use all their voting power at ORL's General Meetings, to select or appoint the members of ORL's Board of Directors, in the following manner: ORL's Board of Directors will comprise of 11 members (including 2 external directors), while the Corporation will recommend the appointment of 5 directors and the appointment of one external director, and Petrochemical Group will recommend the appointment of 4 directors and the appointment of one external director (hereinafter – "the Right for Full Representation on the Board of Directors"). It was determined, among other things, that the right of representation of the Corporation and the Petrochemical Group on ORL's Board of Directors, as stated above, will also relate to all committees of ORL's Board of Directors, excluding the Audit Committee and, to the extent possible, also to the Boards of Directors of all ORL's subsidiaries and associated companies.

3.7 Appointment of Executives and Advisors: subject to the provisions of law, the parties, in their capacity as shareholders in ORL, will act so that the appointment of ORL's CEO, the accountants, auditors and attorneys of ORL, ORL's subsidiaries and to the extent possible, of ORL's associated companies, will be made with agreement of the parties (hereinafter – "the Right to Participate in Appointment of Executives"). In addition, subject to the provisions of law, appointment of the Chairman of ORL's Board of Directors will be made based on the Corporation's recommendation.

3.8 Voting on Specific Issues: the parties will agree in advance on the manner of voting on several issues, if and to the extent they are placed on the day's agenda and are brought for decision at the General Meetings of ORL's shareholders, and in the absence of agreement the vote will be decided by an agreed-to arbitrator. It was also determined that the parties will act in order to amend ORL's Articles of Association so that decisions on those matters that are within the authority of ORL's Board of Directors will be transferred for the decision of the General Meeting of ORL's shareholders or that a decision in respect thereof will require a special majority of 75% of all present directors. Following is a list of these issues: (a) the entry of ORL or of any of its subsidiaries into new business areas; (b) the issuance of shares or other securities by ORL or by its subsidiary; (c) a change in the Articles of Association of ORL and/or of any of its subsidiaries and/or of any of its investee companies; (d) the merging or split-up or reorganization of ORL or of any of its subsidiaries; (e) transactions not in the ordinary course of ORL's business or of any of its subsidiaries or of any of its investee companies with an interested party; (f) the appointment of ORL's auditors; (g) dissolution or freezing of legal proceedings in ORL or in any of its subsidiaries and/or in any of its investee companies; and (h) a material sale or purchase transaction of ORL.

Note 12 - Business Combinations (cont'd)

1. Investments (cont'd)

C. Agreement with IPE regarding Joint Control over ORL: (cont'd)

3. (cont'd)

3.9 Dividend Policy: the parties to the control agreement will act subject to any applicable law, so that ORL and its subsidiaries will adopt a dividend policy, according to which at least 75% of the annual distributable income will be distributed every year.

3.10 Agreement Period: the control agreement will become valid upon its signing and will end (a) according to its terms, or (b) from the time that one party ceases to hold at least 10% of ORL's share capital.

3.11 Additional Provisions: the agreement includes additional provisions customary in these types of agreements, including confidentiality, remedies, non-waiver of rights, arbitration, jurisdiction, etc.

4. So long as the COL Agreement has not been implemented, the Corporation and the Petrochemical Group have mutually undertaken that if all required approvals are received up to and not later than May 10, 2009 (hereinafter – "the Determining Date"), then at the request of the Petrochemical Group an agreement for joint control over ORL will be signed between the parties (hereinafter – "the Agreement for Control Prior to Execution of the COL Agreement"), according to the draft attached to the Third Letter of Undertaking, the control agreement of which is similar to the Agreement for Control After Execution of the COL Agreement, subject to the following changes:

4.1 The Call Option: Petroleum shall be given a call option to purchase and receive from the Company 230 million shares of ORL (hereinafter – "the Realization Shares"), where the price of the Realization Shares is the cost price of purchasing the core control shares purchased in the sale tender from the State of Israel on February 19, 2007, i.e., the amount of NIS 3.3 per share and a total of NIS 759 million, plus CPI linkage differences and interest at the annual rate of 5% and charged semi-annually from the acquisition date and after deduction of dividends distributed plus CPI linkage differences and interest as stated (hereinafter – "the Call Option"). The Call Option will be frozen so long as the COL Agreement has not been executed, and will be cancelled *ab initio* upon execution of the COL Agreement. The Call Option may be exercised by Petroleum, if at all, only from the date the COL Agreement is cancelled and up to the earlier of the Determining Date or up to 120 days from receiving the required authorizations.

Note 12 - Business Combinations (cont'd)

1. Investments (cont'd)

C. Agreement with IPE regarding Joint Control over ORL: (cont'd)

4. (cont'd)

4.2 So long as the Call Option has not been exercised: (a) the Petrochemical Group will not be entitled to the Right of First Refusal; (b) the Corporation will not be entitled to the Right to Join; (c) the Buy Me – Buy You Mechanism will not apply; (d) the Right for Full Representation on the Board of Directors will not apply – instead, ORL's Board of Directors will consist of 9 members (including 2 external directors), while the Company will recommend the appointment of 5 directors, Petroleum will recommend the appointment of 2 directors and the recommendation regarding the appointment of the two external directors will be made in agreement between the parties; and (e) the Right to Participate in the Appointment of Executives will not apply. It is clarified that the rights specified above will become valid at the time of the exercise of the Call Option, if and when it is exercised, or when the Control Agreement After Execution of the COL Agreement is signed.

4.3 On the date that the COL Agreement is realized and the Control Agreement After Execution of the COL Agreement is signed, it will replace and annul the Control Agreement Prior to Execution of the COL Agreement, if and when signed and, among other things, the Call Option will be void *ab initio*.

5. Should annulment of the COL Agreement occur prior to the Determining Date for reasons not connected to an act, omission or activity of Petrochemical, and the Agreement for Control Prior to Execution of the COL Agreement has not yet been signed, then in such a case, and notwithstanding that stated in Section 1 above, the Corporation's Letter of Undertaking dated June 1, 2008 will be reinstated and will be effective together with the attached draft agreement of joint control over ORL (hereinafter – "the Second Letter of Undertaking"), and the Third Letter of Undertaking and the attached draft agreements will be considered null and void. According to the Second Letter of Undertaking, the Petrochemical Group is entitled, among other things, to transfer its rights according to the Second Letter of Undertaking to a third party which has obtained the required approvals up to the Determining Date, subject to the Corporation's Right of First Refusal.

Note 12 - Business Combinations (cont'd)

1. Investments (cont'd)

C. Agreement with IPE regarding Joint Control over ORL: (cont'd)

6. On the signing date of the Third Letter of Undertaking, Petroleum signed an irrevocable letter of authorization (hereinafter – "the Letter of Authorization") that authorizes the Corporation to vote on its behalf at ORL's General Meetings for its holding of 235 million ORL shares (hereinafter – "the Authorization Shares"). The Letter of Authorization will become valid one day prior to the date of the Share Issuance and will be valid until earlier of the time of signing the Control Agreement After Execution of the COL Agreement or until the end of the Five-Year Period (hereinafter – "the Intermediate Period"). During the Intermediate Period Petroleum will not sell the Authorization Shares unless at the time of their sale the Petrochemical Group has given the Corporation an additional letter of authorization pertaining to the number of ORL shares that is identical to the number of shares to be sold, as stated, and in such a case the Letter of Authorization covering the shares sold will be void. In case the Authorization Shares are pledged as a security in favor of third parties that have provided credit to Petrochemical or Petroleum, the Letter of Authorization will be subject to the rights of the holder of the pledge, and in the case of realization of the pledge and the sale of the Authorization Shares to an unrelated third party (subject to the Corporation's Right of First Refusal), the Letter of Authorization will become void, and the Petroleum Group will issue an additional Letter of Authorization to the Corporation covering an identical number of shares as the shares sold.

7. According to the provisions of the Third Letter of Undertaking, the Corporation will be entitled to the Right of First Refusal even prior to the signing of an agreement of joint control over ORL. Until the signing of the control agreement, the Corporation will be entitled to use its control power in ORL based on its discretion and without any limitations deriving from its shares in ORL, and during the Intermediate Period – also under the Letter of Authorization.

8. On December 31, 2008, the agreement with Carmel Olefins expired without the preconditions specified therein having been fulfilled.

D. Inkia Energy Ltd. (hereinafter – "Inkia")

In May 2007, the Corporation, together with a foreign company, DS Construction Ltd. (hereinafter – "DS"), in equal shares, won a private tender of Globeleq International Ltd. (hereinafter – "the Seller") for acquisition of Globeleq Ameicas Ltd. (hereinafter – "Globeleq"), a company registered in Bermuda that holds nine companies engaged in the production and sale of electricity, which are located in a number of countries in Latin America and the Caribbean (hereinafter – "the Globeleq Group"). The total capacity of the power stations owned directly and indirectly by Globeleq exceeds 2,000 megawatts. The acquisition was executed through a wholly owned subsidiary of the Corporation, Inkia Energy Ltd.

The agreement with DS provides that the shares of the joint company are to be held between them in equal amounts. DS did not receive approvals from the authorities in India for the investment and, therefore, the Corporation remains the sole owner of Inkia.

Note 12 - Business Combinations (cont'd)

1. Investments (cont'd)

D. Inkia Energy Ltd. (hereinafter – "Inkia") (cont'd)

On June 18, 2007, the transaction was completed for a consideration of about $547 million (including $4 million transaction costs), after adjustments that were paid by the Corporation in respect of accrued interest and earnings withdrawn, as well as after removing two holdings of the minority interest in assets of Globeleq.

The investment was made by means of an investment in Inkia's capital, in the amount of about $347 million and the amount of about $200 million that constitutes shareholders' loans bearing interest of Libor + 2%.

In the Corporation's consolidated financial statements for 2007, the balance sheet of Inkia was included. Inkia's results of operations and cash flows were included commencing from July 1, 2007.

The excess cost created to the Corporation amounted to about $234 million. Based on a PPA (purchase price allocation) performed by an outside appraiser, the excess cost was allocated as follows:

	Book value before acquisition	Adjustment to fair value	Values recognized on acquisition	Amortization years
		$ millions		
Cash and cash equivalents	51	–	51	
Current assets	57	–	57	
Investments in associated companies	164	65	229	
Non-current assets	9	–	9	
Property, plant and equipment	244	146	390	14–46
Intangible assets	11	17	28	8–12
Current liabilities	(23)	–	(23)	
Deferred taxes	–	(42)	(42)	
Non-current liabilities	(140)	–	(140)	
Minority interest	(60)	3	(57)	
Identified assets and liabilities, net	313	189	502	
Goodwill		45	45	
		234	547	

E. In August 2007, a subsidiary of ICL acquired all of the ownership rights in Supresta LLC (hereinafter – "Supresta"), a company registered in Delaware in the United States, which is engaged in the manufacture and marketing of flame retardants and additional products based on phosphorous.

Note 12 - Business Combinations (cont'd)

1. Investments (cont'd)

E. (cont'd)

The purchase consideration, including transaction costs, after adjustments in respect of changes in working capital, amounted to about $361.5 million, which was allocated as follows: about $67.5 million to working capital, about $120 million to intangible assets, about $83 million to property, plant and equipment and about $4 million to long-term liabilities. The balance amounting to about $95 million was allocated to goodwill.

The statements of income and cash flows of Supresta were consolidated for the first time commencing from August 14, 2007.

F. On January 28, 2008, a company in the Israel Chemicals Ltd. (hereinafter – "ICL") Group acquired the main assets and operations of a business unit of the German group Henkel that engages in water treatment in exchange for a cash payment of about €56 million (about $85 million).

The business unit acquired sells products, services and equipment for treatment of water, mainly to industry in Germany, France, Spain, Italy and Turkey. The financial statements include the results of operations of the business unit as from the date of its acquisition. The purchase price was allocated mainly to intangible assets (principally a patent and customer relations), about $46 million, and to goodwill about $33 million.

G. ICL holds an interest in Dead Sea Magnesium Ltd. (hereinafter – "Magnesium") providing it 65% of the ownership thereof and 67% of the control therein. The remaining ownership and voting rights are held by Volkswagen AG (hereinafter – "Volkswagen").

Under an agreement between ICL and Volkswagen, ICL has a right of first refusal should Volkswagen choose to sell its shares in Magnesium. In addition, should Volkswagen choose to sell all or part of its shares in Magnesium, and does not find a bona fide purchaser, it must notify ICL accordingly, and then ICL will be obligated to purchase those shares at a price to be determined on the basis of 75% of the equity in net assets (the shareholders' equity) of Magnesium.

On December 2, 2008, ICL received notification from Volkswagen, which holds, as stated, 35% of Magnesium's share capital, whereby Volkswagen requests, pursuant to the joint venture agreement signed between the parties in 1996, to sell its shares in Magnesium to ICL.

ICL rejected the notification since, among other things, in ICL's opinion Volkswagen is not entitled to exercise the transfer right at this time and it continues to be obligated to fulfill its commitments to Magnesium, the banks and third parties.

Discussions and meetings held between the parties up to the present time, in order to find a solution for the disagreement, have not, up to now, given rise to an agreed-upon resolution. ICL is examining its course of action in connection with this matter, including filing a request for judicial intervention.

Note 12 - Business Combinations (cont'd)

1. Investments (cont'd)

G. (cont'd)

During the fourth quarter of 2008, the shareholders invested in Magnesium's shareholder's equity, in proportion to their relative holdings therein, the amount of about $20 million.

The auditors of Magnesium directed attention in their opinion on the financial statements as at December 31, 2008, regarding the uncertainty with respect to Magnesium's ability to continue operating as a "going concern", in light of the lack of sources of financing to cover the expected deficit in the upcoming 12 months without assistance from its shareholders. Magnesium's financial statements do not include any adjustments regarding the values of assets and liabilities and the classification thereof that may be necessary if Magnesium is unable to continue operating as a "going concern".

Regarding a provision for decline in value of the assets of Magnesium in the year of account – see Note 15(I)1.

2. Acquisition of minority rights

In June 2008, ZIM published a proposal to its shareholders to acquire ZIM shares by means of a rights offering, based on a value for the company of $500 million, such that every 2 shares of ZIM will confer the right to acquire one share. The Corporation responded affirmatively to the proposal and invested the amount of about $246 million in exchange for 10,393,788 shares of ZIM. After the issuance, the rate of Corporation's holdings in ZIM increased from about 98.4% to about 99.1%.

3. Additional information

A. ICL and certain of its subsidiaries, issued a "Special State Share", which is held by the State of Israel, for purposes of protecting the State's vital interests, and which grants to the State, among other things, special rights in making decisions with respect to the following matters:

1. Sale or transfer of ICL assets that are imperative for the State, not in the normal course of business.
2. Voluntary liquidation or a change or reorganization of ICL's organizational structure or a merger (except for mergers of companies controlled by ICL in which there is no impairment to the rights or powers of the State of Israel as the holder of the Special State Share).
3. Acquisition or holding of shares in ICL which represent 14% or more of the issued share capital of ICL.
4. Acquisition or holding of ICL shares constituting 25% or more of ICL's issued share capital (including supplementing the holding to 25%) even if agreement had been received in the past regarding holdings of less than 25%.
5. Any percentage holding in the share capital of ICL which grants the holder the right, the ability or the practical possibility of appointing, either directly or indirectly, half or more of the number of directors on ICL's Board of Directors, as they are actually appointed.

Note 12 - Business Combinations (cont'd)

3. Additional information (cont'd)

B. In 2001, an Extraordinary General Meeting of ZIM approved an increase in ZIM's authorized share capital by one share of NIS 0.03 par value, for purposes of creating a Special State Share that will grant the State rights to guarantee its vital interests, as detailed in article 5A of ZIM's Articles of Association. The Special State Share is non-transferable, and is designed to give the State certain rights to assure vital State interests. Except for the rights embodied therein, the Special State Share does not provide its holder with any voting or other capital rights.

On March 22, 2001, ZIM's Board of Directors decided to issue the aforementioned share on the date the State sells and transfers all of its shares (excluding the special State Share) in ZIM. At that time, certain statutory changes will go into effect, mainly in connection with the appointment of ZIM's directors.

On February 5, 2004, the State sold all its holdings, at the rate of 48.6% of ZIM's share capital, to the Corporation. Accordingly, ZIM issued the Special State Share to the State.

C. On September 3, 2008, the Board of Directors of ICL resolved to grant ICL approval to buy-back, from time to time, by itself and/or by a subsidiary, ordinary shares of ICL in an amount up to 5% of ICL's issued and paid-up capital, out of ICL's distributable earnings, as defined in the Companies Law, 1999. The buy-back may be implemented during a period commencing from the date of the resolution and up to June 30, 2009, and may be made on or off the stock exchange. The said resolution does not bind ICL to acquire all or any part of the shares. The purchases will be made pursuant to the legal limitations and ICL's internal compliance plan for securities as well as in accordance with instructions provided from time to time by the ad hoc committee of the Board of Directors appointed for the matter – all within the framework of the aforesaid decision.

As at December 31, 2008, ICL had purchased 21,543,885 shares at a cost of about $251 million, constituting about 1.67% of ICL's issued and paid-up share capital. As a result of the acquisition the rate of the Corporation's holdings in ICL increased by about 0.9% and excess cost was created for the Corporation, in the amount of about $107 million, which was allocated to goodwill.

Subsequent to the balance sheet date, ICL purchased an additional 824,457 shares at a cost of about $7 million. In total, ICL acquired 22,368,342 shares, constituting about 1.74% of ICL's issued and paid-up share capital.

Note 13 - Investments in Other Companies

	As at December 31	
	2008	**2007**
	$ millions	**$ millions**
Non-quoted shares	**43**	35
Limited partnerships	**1**	1
Shares of Mekoroth Water Company (*)	**–**	–
	44	36

(*) The investment in shares of “Mekoroth” Israel National Water Company Ltd. (hereinafter – “Mekoroth”), which is held by Rotem and other Group companies, is presented at a notional amount. The company is unable to estimate the fair value of its holdings in the shares of Mekeroth.

The shares in Mekoroth were allotted in respect of investments made by the companies in the past in water infrastructures. Rotem has joined a claim against Mekoroth, which was recognized in part as a class action. The class action includes, among other things, Rotem’s claim for issuance of additional shares of Mekoroth in respect of investments Rotem made in water infrastructures and its claim that the State make a tender offer for the acquisition of its holdings in Mekoroth’s shares – both its present holding and its claimed holdings, as well as a request for relief by means of a monetary refund in the event that the claim for the share issuance is rejected. On January 28, 2004, the District Court issued a ruling rejecting the request for issuance of additional shares in Mekoroth, however the Court recognized the company’s right to initiate a class action for return of amounts it paid. The parties have appealed the District Court’s decision to the Supreme Court. After the balance sheet period, in February 2009, a Government decision was made regarding the approval of issuance of Mekoroth shares. The State and Mekoroth have given notice of this to the Court, which requested the response of the represented plaintiffs to the notification. The response of the represented plaintiffs has not yet been delivered.

Note 14 - Long-Term Deposits, Loans and Other Debit Balances, including Derivative Instruments

A. Composition:

	As at December 31	
	2008	**2007**
	$ millions	**$ millions**
Long-term financial asset (1)	**138**	31
Loan to Haifa Early Retirement Company Ltd. (2)	**85**	80
Deposits in banks and others	**29**	35
	252	146
Less – current maturities	**9**	7
	243	139
Prepaid expenses in respect of operating lease (3)	**9**	6
Excess of assets over liabilities in respect of defined benefit plan	**44**	81
Derivatives not serving for hedging	**136**	52
	432	278

(1) A financial asset from construction of desalination facilities. The asset will be repaid over the life of the desalination concession in accordance with the proceeds received in respect of the facility (see Note 22(c)2(H)).

(2) Pursuant to the collective bargaining agreement covering early retirement, pension and increased severance pay for ORL's employees signed between ORL and the employees' representative on June 14, 2006 ("the Early Retirement Agreement"), a loan agreement was prepared and signed on the same date between ORL and Haifa Early Retirement Company Ltd. ("HERC"), whereby ORL provided an linked-linked loan of about $80 million, for purposes of acquisition of pension rights for the employees, at any time or on any date, should HERC see that ORL has violated the early retirement agreement. HERC will invest the loan in bank deposits or marketable debentures on the stock exchange or marketable government bonds. HERC will pay ORL interest and principal based on the terms set forth in the loan agreement, where the date for the first payment of principal is the earlier of January 2010 or the severance date of 75 employees according to the early retirement agreement. The loan will remain in effect until the earlier of the last employee to which the early retirement agreement applies retires or up to the date on which all of the rights under the early retirement agreement are acquired.

(3) ICL leases most of the land on which it executes its operations in Israel from the Israel Lands Administration, under a long-term lease (the lease periods end in the years 2017 to 2049), in certain cases with an option to renew the lease. Some of the real estate properties and long-term lease rights have not yet been registered in the names of the Group companies in the Land Registry Office.

Note 14 - Long-Term Deposits, Loans and Other Debit Balances, including Derivative Instruments (cont'd)

B. Detail by repayment dates

Set forth below is detail of the repayment dates of long-term loans, after deduction of current maturities:

	As at December 31
	2008
	$ millions
2010	**15**
2011	**10**
2012	**5**
2013	**1**
More than 5 years	**5**
Not yet determined	**207**
	243

C. Types of deposits in banks and long-term balances by currencies and interest rates (including current maturities)

	Weighted average interest rate at 12/31/08	As at December 31	
		2008	2007
	%	$ millions	$ millions
In Israeli currency	5.7	**217**	103
In foreign currency:			
Cyprus liras	–	**–**	14
Swiss francs	6.2	**12**	–
Euro	7.5	**2**	1
U.S. dollars	2.5	**21**	28
		252	146

Note 15 - Property, Plant and Equipment

A. Composition

	As at December 31, 2008						
	Balance at beginning of year	**Additions**	**Disposals**	**Differences in translation reserves**	**Acquisitions as part of business combinations**	**Companies exiting the consolidation**	**Balance at end of year**
				$ millions			
Cost							
Land, land development, roads, buildings and leasehold improvements	**947**	**31**	**(2)**	**(11)**	**11**	**–**	**976**
Installations, machinery and equipment	**6,555**	**297**	**(5)**	**(50)**	**7**	**–**	**6,804**
Dams and evaporation ponds	**546**	**61**	**–**	**(9)**	**–**	**–**	**598**
Heavy mechanical equipment railroad cars and containers	**115**	**4**	**(2)**	**–**	**–**	**–**	**117**
Office furniture and equipment, motor vehicles and other equipment	**339**	**29**	**(21)**	**(2)**	**2**	**(1)**	**346**
Fleet of ships and equipment	**2,053**	**294**	**(262)**	**–**	**–**	**–**	**2,085**
	10,555	**716**	**(292)**	**(72)**	**20**	**(1)**	**10,926**
Plants under construction	**143**	**143**	**–**	**(8)**	**–**	**–**	**278**
Spare parts for installations	**52**	**6**	**–**	**–**	**–**	**–**	**58**
	10,750	**865**	**(292)**	**(80)**	**20**	**(1)**	**11,262**
Accumulated depreciation							
Land, land development, roads, buildings and leasehold improvements	**365**	**28**	**(1)**	**(7)**	**–**	**–**	**385**
Installations, machinery and equipment	**3,211**	**331**	**(3)**	**(29)**	**–**	**–**	**3,510**
Dams and evaporation ponds	**333**	**16**	**–**	**(6)**	**–**	**–**	**343**
Heavy mechanical equipment railroad cars and containers	**94**	**3**	**(2)**	**–**	**–**	**–**	**95**
Office furniture and equipment, motor vehicles and other equipment	**250**	**15**	**(16)**	**(2)**	**–**	**–**	**247**
Fleet of ships and equipment	**627**	**114**	**(150)**	**–**	**–**	**–**	**591**
	4,880	**507**	**(172)**	**(44)**	**–**	**–**	**5,171**
	5,870	**358**	**(120)**	**(36)**	**20**	**(1)**	**6,091**
Deposits on account of property, plant & equipment	**647**						**767**
	6,517						**6,858**

Note 15 - Property, Plant and Equipment (cont'd)

A. Composition (cont'd)

	As at December 31, 2007						
	Balance at beginning of year	Additions	Disposals	Differences in translation reserves	Acquisitions as part of business combinations	Companies exiting the consolidation	Balance at end of year
	$ millions						
Cost							
Land, land development, roads, buildings and leasehold improvements	607	53	(5)	22	271	(1)	947
Installations, machinery and equipment	3,385	174	(72)	60	3,008	–	6,555
Dams and evaporation ponds	421	24	–	16	85	–	546
Heavy mechanical equipment railroad cars and containers	114	3	(2)	–	–	–	115
Office furniture and equipment, motor vehicles and other equipment	225	25	(3)	10	87	(5)	339
Fleet of ships and equipment	1,631	468	(47)	1	–	–	2,053
	6,383	747	(129)	109	3,451	(6)	10,555
Plants under construction	60	58	–	1	24	–	143
Spare parts for installations	8	15	–	–	29	–	52
	6,451	820	(129)	110	3,504	(6)	10,750
Accumulated depreciation							
Land, land development, roads, buildings and leasehold improvements	277	26	(5)	19	49	(1)	365
Installations, machinery and equipment	2,202	192	(69)	37	849	–	3,211
Dams and evaporation ponds	287	15	–	13	18	–	333
Heavy mechanical equipment railroad cars and containers	92	2	(2)	2	–	–	94
Office furniture and equipment, motor vehicles and other equipment	171	20	(13)	5	71	(4)	250
Fleet of ships and equipment	596	91	(33)	–	–	–	627
	3,598	346	(122)	76	987	(5)	4,880
	2,853	474	(7)	34	2,517	(1)	5,870
Deposits on account of property, plant & equipment	270						647
	3,123						6,517

Note 15 - Property, Plant and Equipment (cont'd)

B. Depreciated balances

	Net book value at December 31	
	2008	**2007**
	$ millions	**$ millions**
Land, land development, roads, buildings and leasehold improvements	**591**	582
Installations, machinery and equipment	**3,294**	3,344
Dams and evaporation ponds	**255**	213
Heavy mechanical equipment, railroad cars and containers	**22**	21
Office furniture and equipment, motor vehicles and other equipment	**99**	89
Fleet of ships and equipment	**1,494**	1,426
Plants under construction	**278**	143
Spare parts for installations	**58**	52
Deposits on account of property, plant and equipment	**767**	647
	6,858	6,517

C. Land and buildings:

(1) Includes land leased for periods ending, mainly, in the years between 2017 and 2056, in some cases – with options to renew the lease.

(2) Part of the land and buildings is owned by the Group companies whereas the balance is leased.

(3) Some of the freehold and leasehold land has not yet been registered in the names of the Group companies at the Land Registry Office.

D. The Group owns fully depreciated assets that are still in operation. As at December 31, 2008, the original cost of such assets exceeds $1,952 million.

E. Fixed assets are stated net of amortized investment grants, the amortized amount of which is $303 million (the original amount of the investments grants – $921 million).

F. Plants under construction – the movement represents acquisitions during the year less transfers to fixed asset categories, net.

G. Includes capitalized financing costs in ORL, in the amount of about $19 million.

H. As part of implementation of the strategic plan it adopted in November 2007, on October 12, 2008, ORL's Board of Directors approved construction of a hydro-cracker in the Haifa refinery (hereinafter – "the Facility"), which will produce middle distillates (diesel fuel and kerosene), with a total investment of $670 million (including an investment of $37 million that was approved by the Board of Directors in November 2007 in order to advance the project). The Facility is expected to be operational in 2011.

Note 15 - Property, Plant and Equipment (cont'd)

H. (cont'd)

ORL's Board of Directors instructed ORL's Management to complete the credit arrangement through Export Credit Agency, wherein ORL will receive financing for acquisition of major equipment items from suppliers overseas, and to take steps to obtain the additional credit needed for the project, from various sources, in the long run.

Up to the date of the financial statements, $32 million had been invested. As at the approval date of the financial statements, ORL has no financial obligations to acquire property, plant and equipment that are not covered by additional financing.

I. Impairment of assets

In the year of account, Magnesium examined the need to record a provision for impairment in respect of its property, plant and equipment. The examination included a comparison of the discounted value of the expected cash flows during the plant's remaining useful life (a five-year cash flow forecast period where the fifth year was chosen as the representative year for the balance of life of the property, plant and equipment) compared with the value of the assets as stated in Magnesium's books. Calculation of the discounted value of the expected cash flows was made using an annual discount after tax rate of 14.9% and based on the Magnesium's assessments as to the present magnesium prices in the world market and the expectations regarding future price developments, a forecast with respect to development of unique products and the anticipated energy prices. As a result of this examination, the company included a provision for impairment of the value of Magnesium's assets, in an amount of $47.4 million, which was recorded on the income statement in "other expenses" category.

J. In the year of account, ZIM recognized a loss from decline in value of $95 million ($71 million net of tax) in connection with payments on account of ships. The recoverable amount of the payments on account of acquisition of the ships was determined based on usage value of the ships received. The usage value was calculated by an independent external appraiser by means of capitalization of the future cash flows anticipated from use and operation of the ships acquired at the rate of 13.3% per year.

K. In the year of account, the Corporation examined the recoverable amount of ORL's property, plant and equipment, including the excess cost allocated thereto. The examination was made by an independent external appraiser and included comparison of the discounted value of the future cash flows anticipated over the remaining useful lives of the property, plant and equipment versus their book values. Calculation of the discounted value was made using a pre-tax discount rate of 16% and was based on, among other things, production quantities, refining margins, operating costs and equity investments. This examination indicated that the recoverable amount of the property, plant and equipment is higher than its book value.

Note 15 - Property, Plant and Equipment (cont'd)

L. Fleet of ships and equipment:

	December 31 2008	December 31 2007
	$ millions	$ millions
Includes (after reduction):		
Interest component included in the acquisition price:		
Cost	**(24)**	(44)
Accumulated amortization	**16**	34
Financing expenses capitalized to the cost of the ships:		
Cost	**70**	46
Accumulated amortization	**4**	6
Ships and equipment leased under capital leases:		
Cost	**310**	199
Accumulated amortization	**79**	81

M. Change in Estimate

International Accounting Standard IAS 16, regarding "Fixed Assets", provides that the useful life of an asset shall be reviewed at least at the end of every financial year, and if the expectations are different from the prior estimates, the change is to be treated as a change in an accounting estimate, in accordance with international Accounting Standard IAS 8, regarding "Accounting Policy, Changes in Accounting Estimates and Errors".

Based on opinions received (mostly internal opinions and one opinion from an external independent appraiser), a Group company changed the estimate of the remaining useful life of the fixed assets reflecting an extension of the depreciation period as part of the financial statements prepared in accordance with IFRS, commencing from January 1, 2007. Based on an estimate made, the depreciation period of the some of the facilities of a Group subsidiary was extended to 25 years, commencing from January 1, 2007.

On the basis of the Group's past experience, the cost of assets that have been fully depreciated and that are still used for manufacturing is significant. Furthermore, the Group has re-examined the useful life of the fixed assets as compared to the industry in which it operates, the level of maintenance of the facilities and the functioning of the facilities over the years. According to this examination the remaining period of depreciation of the fixed assets is lower than the balance of the anticipated useful life of the facilities. On the basis of this assessment, the Group decided to change the estimate of the economic useful life of the fixed assets. The change in estimate is based on the experience accumulated by the Group and not on changes that have occurred in the assets or in the business environment. The previous estimate of the useful life of the Group's fixed assets was performed in 2002. The assessment was also based on the accumulated experience of the Group.

N. Regarding ZIM's undertakings to acquire ships – see Note 22(c)(3).

O. Regarding liens – see Note 22(E).

Note 16 - Intangible Assets

A. Composition:

	Goodwill	Concessions (1)	Software costs	Patents and trademarks	Other	Total
			$ millions			
Cost						
Balance as at January 1, 2007	189	193	34	34	92	542
Acquisitions – self development	–	–	12	1	16	29
Acquisitions as part of business combinations	161	4	1	39	132	337
Exit from consolidation	(4)	–	(5)	–	–	(9)
Impact of changes in the exchange rates	9	7	–	2	6	24
Balance as at December 31, 2007	355	204	42	76	246	923
Acquisitions as part of business combinations	**146**	**–**	**–**	**10**	**38**	**194**
Acquisitions – self development	**1**	**–**	**28**	**–**	**12**	**41**
Sale	**–**	**–**	**(9)**	**–**	**(3)**	**(12)**
Impact of changes in the exchange rates	**(12)**	**(4)**	**–**	**(5)**	**(11)**	**(32)**
Balance as at December 31, 2008	**490**	**200**	**61**	**81**	**282**	**1,114**
Amortization and declines in value						
Balance as at January 1, 2007	54	24	23	6	43	150
Amortization for the year	–	5	2	3	15	25
Entry into the consolidation	–	–	–	–	8	8
Exit from the consolidation	–	–	(4)	–	–	(4)
Impact of changes in the exchange rates	2	–	–	1	–	3
Balance as at December 31, 2007	56	29	21	10	66	182
Amortization for the year	**–**	**5**	**6**	**3**	**14**	**28**
Loss from decline in value	**2**	**–**	**–**	**–**	**6**	**8**
Sale	**–**	**–**	**(9)**	**–**	**(3)**	**(12)**
Impact of changes in the exchange rates	**(1)**	**–**	**–**	**–**	**(2)**	**(3)**
Balance as at December 31, 2008	**57**	**34**	**18**	**13**	**81**	**203**
Carrying value						
As at January 1, 2007	135	169	11	28	49	392
As at December 31, 2007	299	175	21	66	180	741
As at December 31, 2008	**433**	**166**	**43**	**68**	**201**	**911**

(1) A subsidiary in Spain has mining rights intended for future development of new mines for potash quarries, in the amount of $63 million. Some of these rights are valid up to 2037 and the balance are valid up to 2067. Development of the new mines has not yet commenced and, accordingly, amortization of the mining rights has also not yet started.

Note 16 - Intangible Assets (Cont'd)

B. Examination of impairment of cash generating units containing goodwill and intangible assets with an undefined useful life

For the purpose of testing impairment, goodwill and intangible assets having an undefined useful life are allocated to the Group's cash-producing units that represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill and intangible assets having an undefined useful life allocated to the cash-producing units are as follows:

	As at December 31	
	2008	**2007**
	$ millions	**$ millions**
Goodwill		
ICL Fertilizers	**198**	95
ICL Industrial Products	**100**	100
ICL Performance Products	**54**	27
Inkia and its subsidiaries	**55**	55
ZIM and its subsidiaries	**18**	19
Other companies	**8**	3
	433	299
Trademarks		
ICL Industrial products, United States	**13**	13
ICL Performance Products, United States	**13**	13
	26	26
	459	325

The usage value was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

	Discount rate	Growth rate (2-5 years)	Long-term growth rate	Period of projected cash flows
ICL Fertilizers	9.5%	–	–	5 years
ICL Industrial Products	11.5%	5.1%–5.3%	2%	5–6 years
ICL Performance Products	9.5%	1.6%	2%	5 years
Inkia and its subsidiaries	10.5%–12.2%	2.0%	–	5 years
ZIM and its subsidiaries	12%	3.7%–13.7%	–	5 years

The recoverable value of the above-mentioned units is based on their usage value. The usage value of some of the units examined was been determined with the assistance of an independent appraiser and of some of the units by means of internal calculations. In most cases it was determined that the book value of the units is lower than their recoverable value and, accordingly, no impairment loss has been recognized in respect of such units, aside from ZIM regarding which a provision for an impairment loss of goodwill was recorded in the amount of $2 million.

Note 16 - Intangible Assets (Cont'd)

B. Examination of impairment of cash generating units containing goodwill and intangible assets with an undefined useful life (cont'd)

The assumptions and estimates were determined in accordance with Management's assessments regarding future trends in the industry and they are based on both internal and external sources (historical and budgetary data).

Possible reasonable changes in key assumptions, which constituted the basis for determination of the recoverable amount of the units, would not have caused the book value to be higher than the amount of their recoverable amounts.

Note 17 - Loans and Credit from Banks and Others, Including Financial Derivatives

This note provides information regarding the Group's interest bearing loans and credit, which are measured based on amortized cost. Additional information regarding the Group's exposure to interest risks, foreign currency and liquidity risk, is provided in Note 37, in connection with financial instruments.

Current liabilities

	December 31 2008	December 31 2007
	$ millions	$ millions
Short-term credit:		
Revolving credit from banks	**95**	18
Short-term loans from banks**	**877**	620
Short-term loans from others	**111**	119
	1,083	757
Current maturities of long-term liabilities:		
Loans from banks	**293**	506
Non-convertible debentures	**98**	109
Other	**43**	30
	434	645
Total current liabilities	**1,517**	1,402

Long-term liabilities

	December 31 2008	December 31 2007
	$ millions	$ millions
Non-convertible debentures	**2,839**	2,499
Loans from banks*	**3,218**	3,230
Other long-term balances	**44**	33
Derivative instruments used for hedging	**63**	–
Derivative instruments not used for hedging	**28**	5
Liability in respect of financing lease	**398**	208
Total other long-term liabilities	**6,590**	5,975
Less current maturities	**434**	645
Total long-term liabilities	**6,156**	5,330

* Some of the Group companies have the right to make early repayment of their loans from financial institutions.

** Includes reclassification of long-term loans of Carmel Olefins, in the amount of $225 million, due to non-compliance with financial covenants (see also Note 22E).

Note 17 - Loans and Credit from Banks and Others, Including Financial Derivatives (cont'd)

A. Classification based on currencies and interest rates

	Weighted average interest rate at 12/31/08	As at December 31 2008	2007
	%	$ millions	$ millions
Current liabilities (without current maturities)			
Short-term credit from banks			
In euro	3.4	**8**	–
In dollars	3.3	**86**	16
Other	4.0	**1**	2
		95	18
Short-term loans from financial institutions			
In Chinese yuans	7.6	**15**	15
In dollars	3.1	**658**	462
In CPI-linked Israeli shekels	3.8	**89**	114
In unlinked shekels	3.7	**49**	25
In euro	3.5	**66**	5
		877	621
Short-term loans from others			
In dollars	1.9	**80**	72
In unlinked shekels	2.9	**31**	46
		111	118
		1,083	757
Long-term liabilities (including current maturities)			
Non-convertible debentures			
In linked shekels	8.2	**2,362**	2,237
In unlinked shekels	6.5	**131**	–
In dollars	6.9	**346**	262
		2,839	2,499
Loans from financial institutions			
In dollars	3.2	**3,008**	3,080
In euro	4.3	**155**	146
In unlinked shekels	7.7	**50**	–
In other currencies	4.0	**5**	4
		3,218	3,230
		6,057	5,729

(1) The interest in respect of most of the dollar liabilities is determined on the basis of Libor + a margin of 0.2%–2.5%.

(2) The interest in respect of most of the euro liabilities is determined partly on the basis of Libor + a margin of 1.2%–6.0% and partly on the basis of fixed annual interest of 5.7%.

(3) The annual interest in respect of most of the shekel liabilities is linked to the CPI at the rate of 4.5%–6.8%.

Note 17 - Loans and Credit from Banks and Others, Including Financial Derivatives (cont'd)

B. Balances by repayment dates

	As at December 31 2008 $ millions
2010	**481**
2011	**1,310**
2012	**802**
2013	**929**
More than 5 years	**2,055**
Not yet determined	**133**
Total non-current liabilities net of current maturities	**5,710**

C. Liability in respect of financing lease

Information regarding the financing lease liability broken down by payment dates is presented below:

	As at December 31, 2008			As at December 31, 2007		
	Minimum future lease rentals	Interest component	Present value of minimum lease rentals	Minimum future lease rentals	Interest component	Present value of minimum lease rentals
	$ millions					
Less than one year	**58**	**18**	**40**	34	9	25
From one year to five years	**231**	**79**	**152**	144	33	111
More than five years	**243**	**37**	**206**	112	40	72
	532	**134**	**398**	290	82	208

ZIM signed lease contracts classified as financing leases in respect of ships and containers. The average lease for the containers ranges between 5 and 10 years. Based on most of the lease contracts for containers, ZIM has an option to acquire the containers at a price expected to be lower than the fair value on the date the option may be exercised.

D. Additional details regarding loans and credit issued during the period

1. In March 2007, the Corporation raised $297 million by means of the private offering of two series of debentures to institutional investors.

   a. Series 6 – total of $203 million debentures, linked to the index, repayable in 5 equal annual payments commencing from 2012 and bearing annual interest at the rate of 4.55%.

   b. Series 7 – total of $94 million debentures, linked to the index, repayable in 5 equal annual payments commencing from 2017 and bearing annual interest at the rate of 4.7%.

Note 17 - Loans and Credit from Banks and Others, Including Financial Derivatives (cont'd)

D. Additional details regarding loans and credit issued during the period (cont'd)

1. (cont'd)

   Up to registration of each of the debenture series for trading, to the extent they are registered as stated, additional interest will be paid at the annual rate of 0.3%. Regarding registration of the debentures for trading – see Section 2. below. The debentures were rated AA/Stable by "Ma'alot, The Israeli Securities Rating Company". Regarding a change in the rating – see Section 4. below.

2. In August 2007, the Corporation published a prospectus for registration for trading of the debentures (Series 6) and the debentures (Series 7), noted in Section 4, above. The prospectus also constitutes a "shelf prospectus".

   In April and June 2007, debentures Series 6 and debentures Series 7 were expanded by the amount of about $95 million and about $111 million, respectively. The Corporation entered into currency and interest rate SWAP transactions in the amount of about $156 million from index-linked liabilities of the Series 6 debentures to dollar interest liabilities at Libor + 1.42%.

3. In 2008, the Corporation raised an additional $139 million in the framework of the Series 6 debentures referred to above, and about $92 million through issuance of Series 8, bearing unlinked interest of 6.8% and repayable in 4 equal annual payments commencing from December 31, 2011.

4. Subsequent to the balance sheet date, on February 11, 2009, Standard & Poors Ma'a lot (hereinafter – "Ma'alot") gave notice of reduction of the rating of the Corporation's debentures from a rating of AA/Stable to a rating of AA–/Negative.

5. In November 2008, Ma'alot gave notice that it is reducing the rating of ORL's debentures (Series A, B and C as well as non-marketable debentures) from the level of AA/Stable to A/Negative.

6. On September 10, 2008, Ma'alot gave notice that it is reducing the rating of ZIM's debentures from A/Stable to A/Negative. Subsequent to the balance sheet date, on February 18, 2009, Ma'alot gave notice that it is further reducing the rating from A/Negative to BB+/Negative.

7. Regarding liens and financial covenants – see Note 22E.

E. Sale of customer receivables as part of a securitization transaction

ICL and certain subsidiaries (hereinafter – "the Companies") entered into a securitization transaction in the overall scope of up to $220 million, in the framework of which the Companies sell all the customer receivables to a foreign company that was set up specially for this purpose and which is neither owned nor controlled by the ICL Group (hereinafter – "the Acquiring Company").

Note 17 - Loans and Credit from Banks and Others, Including Financial Derivatives (cont'd)

E. Sale of customer receivables as part of a securitization transaction (cont'd)

The Acquiring Company finances acquisition of the debts by means of a loan received from a financial institution unrelated to ICL, which finances the loan out of the proceeds from the issuance of commercial paper on the U.S. commercial paper market. The repayment of both the commercial paper and the loan are backed by credit lines from a banking consortium organized by Rabobank International.

On July 11, 2007, the said agreement was updated in such a manner that the maximum amount of the financial means available to the Acquiring Company will be about $300 million instead of $220 million.

The acquisition is on an ongoing basis, which enables the Acquiring Company to utilize the proceeds received from customers whose debts were sold, to acquire new trade receivables.

The Companies will be entitled to sell their trade receivables to the Acquiring Company within a period of one year from the closing date of the transaction. This period may be extended, subject to the approval of all parties, for a maximum of four additional one-year periods. Each of the parties may terminate the period subject to the terms stipulated in the various agreements.

The selling price of the trade receivables is based on the balance of the related debt, discounted by an amount based on the anticipated period from the sale until repayment.

Upon acquisition of the trade receivables, the Acquiring Company pays the majority of the balance in cash and the remainder in a subordinated note, which is paid after collection of the related debt. The rate of the cash consideration varies according to the composition and behavior of the customer portfolio.

The Companies bear all losses incurred, if any, by the Acquiring Company as a result of trade receivables sold under the securitization transaction and not repaid, all up to the aggregate balance of the debt not yet paid, which is included in the subordinated liability.

The sale is final. The Acquiring Company has no right of recourse to the Companies in respect of amounts paid, with the exception of debts in respect of which a commercial dispute arises between the Companies and their customers (i.e., a dispute involving a claim concerning the failure of the seller to fulfill the terms of the product supply agreement, such as: supply of the wrong product, supply of a defective product, delay in supply, etc.).

The Companies handle collection of the trade receivables included in the securitization transaction, on behalf of the Acquiring Company.

In the agreement, the Company undertook to comply with certain covenants, according to which the ratio of the net debt to shareholders' equity will not exceed 2.1 and the ratio of the net debt to EBITDA will not exceed 4.5. If the Company does not comply with the aforementioned covenants, the Acquiring Company is allowed to stop acquiring new receivables (without this affecting existing acquisitions). The Company is in compliance with the aforementioned covenants.

Note 17 - Loans and Credit from Banks and Others, Including Financial Derivatives (cont'd)

E. Sale of customer receivables as part of a securitization transaction (cont'd)

The securitization transaction executed by ICL does not comply with the conditions for elimination of financial assets provided in IAS 39 regarding "Financial Instruments – Recognition and Measurement" since ICL did not transfer all the risks and rewards deriving from the customer receivables. Therefore, the amounts received from the acquiring company are presented as a financial liability as part of the "short-term credit" category. The balance of the receipts as at December 31, 2008, amounted to about $70 million (December 31, 2007 – 0).

F. Loans from banks in Magnesium

The Magnesium Company has long-term loans from various banks in the total amount of $76 million, the repayment date of which was December 31, 2008. The Magnesium Company sent letters to the banks requesting that they refrain from taking action against it with respect to non-payment of the loans, for a period of about three months in order to enable it to hold talks with its shareholders. In addition, ICL also notified the various banks that it continues to guarantee the loans taken out by the Magnesium Company, in accordance with its pro rata share in the ownership of the Magnesium Company (65%). The banks consented to the Magnesium Company's request and notified that they will not take action up to March 31, 2009.

Note 18 - Trade Payables

	As at December 31	
	2008	2007
	$ millions	$ millions
Open accounts	**989**	1,318
Checks payable	**8**	3
	997	1,321
From associated companies	**8**	19

Note 19 - Other Payables and Credit Balances, including Financial Instruments

	As at December 31	
	2008	2007
	$ millions	$ millions
Financial instruments not used for hedging	**148**	2
The State of Israel and government agencies	**119**	95
Employees and payroll-related agencies	**266**	266
Customer advances and deferred income	**60**	33
Accrued expenses	**140**	140
Associated companies	**11**	10
Other	**260**	91
	1,004	637

Note 20 - Provisions

	Warranties	Site restoration, clearance and dismantling of PP&E	Legal claims	Other	Total
			$ millions		
Balance at January 1, 2008	–	44	43	18	105
Provisions recorded during the year	**2**	**12**	**35**	**11**	**60**
Provisions realized during the year	**–**	**–**	**(28)**	**–**	**(28)**
Provisions cancelled during the year	**–**	**–**	**(6)**	**(3)**	**(9)**
Payments made during the year	**–**	**(3)**	**(1)**	**–**	**(4)**
Effect of passage of time (for discounting)	**–**	**4**	**–**	**–**	**4**
Linkage differences	**–**	**(3)**	**(2)**	**–**	**(5)**
Balance at December 31, 2008	**2**	**54**	**41**	**26**	**123**

Presented in the balance sheet:

	As at December 31	
	2008	2007
	$ millions	$ millions
In current liabilities	**60**	69
In non-current liabilities	**63**	36
	123	105

A. Restoration and mining sites

The Group included a provision in the books for restoration of mines and mining sites. The provision is based on the discounted cash flows based on an estimate of the future expenses that will be required to close down the mines and to restore the mining site. The estimated closing date of the mines is based on a geological evaluation of the quantity of potash remaining in the mine and the resources available to the subsidiaries.

B. Waste removal

Pursuant to the provisions of Spanish environmental protection law relating to areas affected by mining activities, 2 subsidiaries in Spain submitted a plan for site clearance of mining waste. The plan is intended to last for a period of about 24 years and 36 years for each of the above-mentioned subsidiaries. Based on the company’s estimate, the overall scope of the site clearance plan with respect to mining waste will amount to $22 million (€16 million). As at December 31, 2008, a provision was included in the subsidiary’s books in Spain, in the amount of $13 million (€9 million). The provision was calculated based on discounting the forecasted costs for removal of the waste.

C. For details regarding legal claims and proceedings against the Corporation and the Group companies in respect of which provisions were recorded – see Note 22(B).

Note 21 - Employee Benefits

A. Composition

	As at December 31	
	2008	**2007**
	$ millions	**$ millions**
Present value of financed commitments	**610**	720
Less – fair value of plan assets	**550**	753
	60	(33)
Present value of non-financed commitments	**352**	361
Post-employment medical benefits	**6**	6
Liability recognized in respect of defined benefit plans	**418**	334
Benefits in respect of terminations and other long-term benefits	**125**	117
Liability in respect of employee benefits recognized in the balance sheet	**543**	451
Fair value of indemnification asset right for plan in respect of severance (loan to Haifa Early Retirement Company Ltd.)	**85**	80
Cash and deposits	**6**	7
Equity instruments	**128**	275
Debt instruments	**365**	423
Deposits in insurance companies	**51**	48
	550	753

B. Severance pay

Pursuant to the Israeli severance pay laws and the existing employment agreements, the Group companies are obligated to pay severance benefits to employees who are dismissed or who leave their positions under certain circumstances. The severance benefits are computed based on the length of their service and, generally, based on their latest salary at the rate of one salary for every year worked.

The liabilities relating to employee rights at the time of retirement are covered as follows:

1. Pursuant to the collective bargaining agreements, the Group companies in Israel make current deposits in outside pension plans with respect to part of their employees. In general, these plans provide full coverage for retirement benefits, and in certain other cases – 72% of the severance pay liability.

   The liabilities for severance pay covered by these plans are not presented in the financial statements, since all of the risks involved with payment of the benefits, as described above, have been transferred to the pension funds.

Note 21 - Employee Benefits (cont'd)

B. Severance pay (cont'd)

2. The Group in Israel makes current deposits in Managers' Insurance policies, with respect to employees holding management positions. These policies cover the liabilities relating to the severance benefits due to those employees. Based on the employment agreements, subject to certain limitations, these insurance policies belong to the employees. The amounts deposited in respect of the policies, as stated, are not included in the balance sheet since they are not under the management and control of the companies.

3. With respect to the balance of the liabilities not covered based on that described above, a full provision has been recorded in the financial statements.

4. In certain subsidiaries operating in countries in which there is no obligation to make severance payments, provisions for such possible payments in the future were not made, excluding cases of a discontinuation of operations in part of the plant and the consequent dismissal of employees.

5. Some of the retirees of the Group companies receive, aside from their pension payments from the pension fund, benefits that mainly consist of festival gifts, a cash amount for acquisition of the Corporation's products and weekend outings. The liabilities of the companies in respect of these costs are accrued during the work period. The Group companies, as stated, including in their financial statements the costs expected to be incurred in the post-employment period based on an actuarial calculation.

6. Pursuant to an employment agreement of a subsidiary, the subsidiary's employees are entitled to receive participations in their children's tuition payments. The financial statements include a provision in respect of this liability, which is based on an actuarial evaluation on the basis of the present value (using a discount rate of 3.9%), taking into account the probability the tuition, as stated, will actually be paid, all of this being based on past experience.

7. Pursuant to the employment agreement, some of the retiring employees are entitled to a certain payment for unused sick days. The financial statements include provisions for this liability, in accordance with an actuarial estimate based on, among other things, the present value taking into account the probability of payment of the sick days at the time of retirement, on the basis of past experience.

C. Pension and early retirement

1. Some of the Group's employees in and outside of Israel (some after leaving the Group) have a defined pension plans (intra-company) at the time of retirement. In general, based on the terms of the pension plans, the employees are entitled to receive pensions payments based on, among other things, the number of years of their service (in certain cases up to 70% of the latest base salary) or calculated, in certain instances, based on a fixed salary.

Note 21 - Employee Benefits (cont'd)

C. Pension and early retirement (cont'd)

2. A subsidiary has a liability for pension payments to its employees in respect of which it established a pension fund. The subsidiary is responsible for making payments to the pension fund and in a case where the pension fund has insufficient assets the subsidiary is required to make up the shortage in accordance with the rules provided in the country in which it operates. The subsidiary is not permitted to withdraw monies from the fund even if there are surplus monies in excess of the financial liabilities. In addition, the subsidiary is not permitted to liquidate the pension fund.

3. In addition to that stated above, some of the Group companies took out a plan with a provident fund or a pension fund according to which they pay the funds current amounts that release them from their obligations for pension payments pursuant to the employment agreements for all their employees in a case of retirement of such employees after reaching retirement age. The amounts accumulated in the provident fund and the pension fund are not under the control or management of the companies and, therefore, they are not reflected in the balance sheets.

   According to a collective bargaining agreement signed in 2005 with employees of a subsidiary, Sdom employees are entitled to leave on early retirement upon fulfillment of certain conditions that take into account both age and years of service as at the retirement date.

4. Pursuant to agreements made with some of a subsidiary's employees, such employees are entitled, if they leave on early retirement, to pension payments until they reach the regular retirement age. The financial statements include a provision calculated on the basis of the present value (using a discount rate of 4%) of the payments in respect of early retirement.

D. (1) Pension and early retirement

	For the Year Ended December 31	
	2008	**2007**
	$ millions	**$ millions**
Liability in respect of defined benefit plans as at January January 1	**1,087**	920
Current service costs	**37**	39
Interest costs	**65**	50
Employee deposits	**2**	2
Benefits paid	**(55)**	(34)
Actuarial gains recorded to equity	**(71)**	(31)
Liabilities acquired in business combinations	**1**	79
Reduction as a result of reduction of benefits	**(13)**	–
Changes in respect of exchange rate	**10**	44
Changes in respect of translation differences	**(95)**	18
Liability in respect of defined benefit plans at end of year	**968**	1,087

Note 21 - Employee Benefits (cont'd)

D. Pension and early retirement (cont'd)

(2) Movement in the defined benefit plan assets

	For the Year Ended December 31	
	2008	2007
	$ millions	$ millions
Fair value of the plan assets as at January 1	**753**	629
Expected yield on plan assets	**47**	40
Actuarial losses recorded to equity	**(164)**	(7)
Employer deposits	**17**	16
Employee deposits	**1**	2
Changes in respect of business combinations	**–**	52
Benefits paid	**(30)**	(19)
Changes in respect of exchange rate differences	**7**	20
Changes in respect of translation differences	**(81)**	20
Fair value of the plan assets at end of the year	**550**	753

(3) Movement in employee benefit assets that are not plan assets

	For the Year Ended December 31	
	2008	2007
	$ millions	$ millions
Loan to Haifa Early Retirement Company Ltd.	**86**	80
Interest receivable	**(1)**	–
	85	80

(4) Expense recorded in the statement of income

	For the Year Ended December 31	
	2008	2007
	$ millions	$ millions
Current service costs	**37**	39
Interest costs	**65**	50
Expected yield on plan assets	**(47)**	(40)
Reduction as a result of reduction of benefits	**(13)**	–
Exchange rate differences, net	**(3)**	12
Other	**(2)**	–
	37	61

Note 21 - Employee Benefits (cont'd)

D. Pension and early retirement (cont'd)

(4) Expense recorded in the statement of income (cont'd)

The expense is included in the following categories in the statement of income:

	For the Year Ended December 31	
	2008	**2007**
	\$ millions	**\$ millions**
Cost of sales	**33**	31
Selling and marketing expenses	**1**	3
Administrative and general expenses	**3**	5
Research and development expenses	**1**	1
Other income	**(18)**	–
Financing expenses	**17**	21
	37	61

(5) Actual yield

	For the Year Ended December 31	
	2008	**2007**
	\$ millions	**\$ millions**
Actual yield on plan assets	**(117)**	40

(6) Actuarial gains and losses recorded directly to equity

	For the Year Ended December 31	
	2008	**2007**
	\$ millions	**\$ millions**
Accumulated balance (before taxes) as at January 1	**(24)**	–
Balance in respect of business combinations	**–**	(20)
Actuarial gains (losses) recognized during the period	**93**	(4)
Accumulated balance (before taxes) as at December 31	**69**	(24)
Deferred taxes in respect of actuarial gains and losses recorded directly to equity	**(16)**	(1)
	53	(25)

Note 21 - Employee Benefits (cont'd)

D. Pension and early retirement (cont'd)

(7) Actuarial assumptions

Main actuarial assumptions as at the date of the report (based on weighted average):

	For the Year Ended December 31	
	2008	**2007**
	%	**%**
Discount rate as at December 31	**5.5**	5.7
Expected yield on plan assets as at January 1	**6.3**	5.8
Rate of future wage increases	**4.0**	4.8
Rate of increase in pension annuity	**1.9**	2.2

The assumptions regarding the future mortality rates are based on published statistical data and accepted mortality tables.

(8) Historical data

	As at December 31	
	2008	**2007**
	$ millions	**$ millions**
Present value of the liability in respect of defined benefit plans	**968**	1,087
Fair value of the plan assets	**550**	753
Plan deficit	**418**	334
Adjustments to liabilities deriving from past experience	**6**	5
Adjustments to assets deriving from past experience	**(40)**	4

E. Liability in respect of severance and other long-term benefits

	As at December 31	
	2008	**2007**
	$ millions	**$ millions**
Liability in respect of vacation	**11**	11
Other long-term liabilities	**9**	7
Liabilities in respect of severance	**105**	99
	125	117

Note 21 - Employee Benefits (cont'd)

F. Early retirement plan

In November 2007, the Board of Directors of a subsidiary approved an early retirement plan for employees on preferential terms, in the framework of which 37 employees retired during 2008. In connection with the retirement costs, in 2007 the company recorded an expense in the amount of $11.6 million that was included as part of "other expenses" in the statement of operations for the period.

On July 2, 2008, the Board of Directors of a subsidiary approved a plan according to which early retirement was offered to 50 of the subsidiary's employees, that is, prior to the retirement date provided by law. At the end of December 2008, the subsidiary's Board of Directors approved an expansion of the plan to 54 employees. All 54 employees of the subsidiary joined the plan. In the period of the report, a provision was recorded in the amount of about $32 million in respect of the 54 employees that joined the plan, which was in included as part of "other expenses" in the statement of operations for the period. See also Note 30.

On June 14, 2006, an agreement was signed with 45 long-standing employees of ORL whereby they will be entitled to retire early from ORL on preferential terms. In addition, ORL signed agreements for early retirement with 13 additional employees. The cost to ORL of retirement of all the employees is expected to amount to about $28 million.

G. Loan to Haifa Early Retirement Company

Pursuant to the collective bargaining agreement covering early retirement, pension and increased severance pay for ORL's employees signed between ORL and the employees' representative on June 14, 2006 ("the Early Retirement Agreement"), a loan agreement was signed between ORL and Haifa Early Retirement Company Ltd. ("HERC"), whereby ORL provided a linked-linked loan of about $80 million (NIS 300 million), linked to the index, for purposes of acquisition of pension rights for the employees, at any time or on any date, should HERC see that ORL has violated the early retirement agreement. HERC will invest the loan in bank deposits or marketable debentures on the stock exchange or marketable government bonds. HERC will pay ORL interest and principal based on the terms set forth in the loan agreement, where the date for the first payment of principal is the earlier of January 2010 or the severance date of 75 employees according to the early retirement agreement.

The loan to HERC constitutes an indemnification right the Group will receive for payment of the liability in respect of early retirement and is measured at fair value.

Note 22 - Contingent Liabilities, Commitments and Concessions

A. Non-financial guarantees

The amount includes about $1 million that the Corporation guaranteed to its customers holding residential units of AM-HAL Ltd. According to the agreement for the sale of H.L. Properties Ltd. (a former investee company), the parent company of AM-HAL Ltd., in 1999, the purchaser undertook to do its best to release the Corporation from the above-mentioned guarantees. As long as the purchaser has not released the Corporation from the said guarantees the purchaser committed to be responsible for any claim or demand directed to the Corporation in respect of these guarantees beginning from December 31, 1999.

B. Claims

1. The Corporation

A. In January 2006, the Movement for Quality Government filed a claim in the District Court of Tel-Aviv–Jaffa against the State, ORL and Israel Corporation, for declaratory relief whereby on October 18, 2003 the Corporation was required to transfer to the State, for no consideration, all the assets of ORL that it owned at that time.

In the period of the report, the claim was cancelled with the consent of all the parties, and the claimant committed not to renew the claim.

B. Regarding a claim against the Corporation and a subsidiary – see Section 22(B)2(d), below.

2. In subsidiaries

Since the Corporation operates through its significant subsidiaries, the assessments and data presented in this Note are of the subsidiaries and their managements and subject to clarifications, examinations and completions requested from the subsidiaries, the Corporation saw fit to rely and base itself on the said assessments and data, and to the extent it is required for purposes of the description below, the Corporation accepts these the assessments and data.

A. <u>Israel Chemicals Ltd. (ICL)</u>

1) Since 1994, three subsidiaries of ICL's Industrial Products segment (hereinafter in this section – "the Subsidiaries") have received third-party and fourth-party notifications from American companies sued in courts in the U.S. and other countries by approximately 30,000 former employees on banana plantations mainly in Central America and the Caribbean Islands (hereinafter – "the Plaintiffs"). The Plaintiffs worked mainly as plantation laborers and they allege that they sustained bodily injury as a result of their exposure to a certain chemical substance, which was produced by a number of companies, including large chemical companies, and was supplied to companies engaged in banana cultivation (collectively – "the Defendants") during a total period of about thirty years (1960 to 1990). All of the said claims are for bodily injury and, therefore, the amounts thereof are not stated in the statement of claim.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

A. Israel Chemicals Ltd. (ICL) (cont'd)

1) (cont'd)

During the period in which these proceedings have been carried on, most of the Plaintiffs have reached compromise agreements with most of the Defendants. The Subsidiaries are mentioned in the above-mentioned compromise agreements, as a party included in the waiver agreements, although they did not contribute to them financially. ICL Industrial Products estimates that the quantity of chemicals supplied by the Defendants to the relevant countries and in the relevant period was, if at all, small as compared to the quantity supplied by the other producers.

As at the approval date of these financial statements, there are two claims pending in U.S. courts that were apparently filed by eleven individual plaintiffs, to which the Subsidiaries are a party (together with other defendants). The above-mentioned claims were filed as a class action, however the request for their certification as such has not yet been heard.

At this stage, ICL is unable to estimate if and to what extent the Subsidiaries in the sector are exposed to liability in these proceedings due to the uncertainty involved in the aforementioned proceedings and, therefore, no provision has been made in the financial statements in respect thereof. Nonetheless, ICL's management estimates, based on the evaluation of ICL's legal advisors, that the probability that if any of the claims are confirmed against the Subsidiaries, the amount that will be awarded against the Subsidiaries will exceed $10 million is low.

In November 2007 a court in Los Angeles rendered judgment in the claim of 12 plaintiffs from Nicaragua against the defendants there. The jury accepted the claims of six plaintiffs and rejected the claims of the others. The six plaintiffs that won their cases were awarded compensation of about $3.3 million. The Subsidiaries were not a party to this proceeding.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

A. Israel Chemicals Ltd. (ICL) (cont'd)

2) Ecology

a. In December 2007, updated business license conditions were issued to the plants at Ramat Hovav including a subsidiary in the ICL Industrial Products segment (hereinafter – "the Subsidiary") under which the treatment of effluent was under the exclusive responsibility of each plant (including the removal stage). The Subsidiary is required to construct a biological treatment plant, and values were set for effluents coming out of the treatment plants. As of the beginning of 2008, the pumping of effluent into the Ramat Hovav Local Industrial Council's central treatment system is prohibited. The Subsidiary disconnected from the Council's effluent treatment system in May 2007, and began treating its industrial waste independently. Under the new conditions of the license, the wastewater from the facilities will be removed to the evaporation pools and reservoirs that are operated and managed by the Council, until the end of 2009. After that date, independent removal systems will be operated under the management of each facility, and wastewater pumping into the current system shall be prohibited. Each facility is to meet the permanent wastewater values by no later than the beginning of 2010 (provided all the approvals are received from the authorities to execute the projects). Pursuant to the new business license, Bromine Compounds along with the other relevant factories in the industrial area contacted the authorities and presented a delay of one year in the process of establishment of an independent waste removal system due to a delay in the licensing process.

Pursuant to the new conditions of the license, the facilities submitted a plan for setting up an independent removal system, and to conduct a risk survey for the independent removal system including the sediment solids in it.

Under an agreement of December 2006 between the Ministry of the Environment, the Manufacturers' Association, plants at Ramat Hovav (including the Subsidiary's) and the Sustainable Negev Association, which was authorized by the District Court in December 2006, the Ministry and the plants agreed to commence accelerated negotiations for a period of half a year (which ended in June 2007) regarding air emissions both from new and existing facilities, as well as diffused emissions, and prevention of pollution and odor hazards, on the basis of international standards. In April 2007, the government resolved, as part of a decision to move a conglomeration of IDF training bases to the Negev Junction near to Ramat Hovav, that government ministries would act to improve the air quality around the Ramat Hovav Industrial Zone, in accordance with an outline agreed upon by the Ministry of Health, the Ministry of the Environment and the Israel Defense Forces.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

A. Israel Chemicals Ltd. (ICL) (cont'd)

2) Ecology (cont'd)

a. (cont'd)

In March 2008, the Subsidiary received the new conditions of the business license relating to air emissions. Under the new license conditions, the plant must conduct surveys of emissions of any kind from the plant into the environment. The Ministry will determine the measures to be used for treating emissions and pollution on the basis of the results of these surveys. Furthermore, the Subsidiary shall be required to treat diffused emissions of substances emitted during the production process immediately. It is not possible to assess what the additional cost of these conditions will be.

b. Pending proceedings relating to the Kishon River

The production site of Fertilizers and Chemical Materials Ltd., a company in the ICL Fertilizers segment (hereinafter – "FCM") borders the Kishon River. For decades FCM, along with many other entities, municipalities and plants, has diverted wastewater to the Kishon River.

Between 2001 and 2005, a number of claims for monetary damages were filed in the Haifa District Court against FCM and a series of other defendants (including the State of Israel) by 50 individuals (or their heirs or dependants), most of them fishermen who had worked, according to the claims, in the Kishon's fishing harbor. The plaintiffs claim that the diversion of wastewater into the Kishon caused them to suffer from cancer (and other diseases). Dozens of factories and government authorities were also joined as third-party defendants to these lawsuits.

During the course of hearing the claims, nine of the plaintiffs withdrew their claims, which were struck out. Because these claims are for physical injury, the plaintiffs are not required to quantify the amounts sought as damages. As at the date of preparation of this report, the damages quantified in the claims amount to about $36 million (and about $0.8 million for pending claims which overlap the principal damage), as valued on the date of filing of the claims, plus linkage differentials and interest from the date of illness or the date of filing of the claim, as well as penal damages and additional costs such as treatments and third party assistance – which, in a small number of cases, were not quantified – fees and costs. It is noted that this is an arithmetic addition of the sums quantified in the statements of claim, and not a risk evaluation by the defendants nor an evaluation of the risk to which FCM is exposed.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

A. Israel Chemicals Ltd. (ICL) (cont'd)

2) Ecology (cont'd)

b. (cont'd)

As of the date of this Report, these cases are in the stages hearing evidence. First, the court is deliberating the question of the causal link in the narrow sense, meaning the connection between the substances alleged to have been in the fishing harbor and the plaintiffs' injuries. These actions involve highly complex fact patterns spanning decades and involving over one hundred parties (plaintiffs, defendants and third parties), and constitute a precedent-setting case, both in terms of the nature of the claim and the division of responsibility among the defendants and third parties.

FCM claims that it has good defenses, based on expert opinions presented by FCM and other defendants. These defenses include: (a) a higher cancer rate is not apparent among the fishermen, (b) most of their ailments can be attributed to personal risk factors (primarily the fact that over 90% of the plaintiffs are smokers) as well as natural illness, and (c) the circumstances of the claimed exposure are not known to cause the plaintiffs' diseases.

However, based on the evaluation of its legal advisors, given the factual and legal complexity of these proceedings, the initial stage in which they are at present, and the multitude of parties involved, the Company cannot estimate its exposure with regard to these claims and no reserve has been included in the financial statements.

Between 2000 and 2007, a number of claims were filed in the District Court at Haifa against a list of defendants by former soldiers (and their heirs and dependents). The plaintiffs claim that contact with toxic substances in and around the Kishon River caused them cancer and other diseases. As at the date of this report, 23 of the plaintiffs have withdrawn their claims, which have been struck out. As at the date of this report, there remain 89 plaintiffs in court, claiming for 87 soldiers in the sum of about $72 million (nominal, as at the date of submission of the claim) as quantifiable special/general damages, about $21 million in dependant damages (some of which overlap with the special damages), and about $36 million in punitive damages (all of these amounts are as at the date of submission of the lawsuit). Because these claims are for physical injury, the plaintiffs are not required to precisely quantify the amounts sought as damages. Other primary damages not quantified in the claim include loss of future livelihood, medical expenses, in some cases loss of salary for years lost from work, etc., as well as interest and linkage differentials, attorneys' fees and costs. The defendants joined third parties including FCM as well as dozens of plants and government entities, including the State of Israel.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

A. Israel Chemicals Ltd. (ICL) (cont'd)

2) Ecology (cont'd)

b. (cont'd)

It is noted that the calculation described above is merely an arithmetic addition of the sums quantified in the statements of claim, and not a risk evaluation by the defendants nor an evaluation of the risk to which FCM is exposed.

These cases are in the initial hearing stages. Consequently, the factual information regarding the plaintiffs and the nature of their alleged exposure is mostly not known to the defendants and third-party defendants, including FCM. These actions involve highly complex fact patterns spanning decades and involving hundreds of parties (plaintiffs, defendants and third parties), and constitute a precedent-setting proceeding, both in terms of the nature of the claim and the division of responsibility among the defendants and third parties. It is likely, with the necessary caution and subject to the abovementioned information, that some of FCM defenses to the claims described in sub-section 2 above will also serve to defend FCM with regard to these claims. However, based on the evaluation of its legal advisors, given the factual and legal complexity of these proceedings, the initial stage in which they are at present, and the multitude of parties involved, the Company cannot estimate its exposure with regard to these claims and no provision has been included in the financial statements.

The Haifa Rowing Club Association filed a class action under the Prevention of Environmental Hazards (Civil Claims) Law, 1992, in the Magistrates Court in Haifa against a number of plants on the banks of the Kishon River, including against FCM. The Claim called for cessation of the pollution of the Kishon River and for an order to restore the Kishon River to the state it was in prior to the discharge of the waste. Dozens of factories and government authorities, including the State of Israel, were also joined as third-party defendants to these lawsuits. In 2007, the Court summarily rejected the claim. The Court approved the discretion exercised by the Authorities with respect to the grant of pumping permits into the Kishon River, noting the steps taken by the authorities and the defendants to improve the state of the Kishon River, and the considerable improvement in recent years in the quality of the water and in the state of the river. An appeal filed by the Association in the District Court of Haifa was cancelled by consent on September 23, 2008, with each side, including the Association, reserving its right to file a new claim to the extent there is a proper factual foundation for such claim. It was also determined with the consent of the parties, that if a new claim is filed it will not be possible to make a Statute of Limitations claim in the framework thereof against the mere existence of a harmful or annoying item (assuming same is proven).

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

A. Israel Chemicals Ltd. (ICL) (cont'd)

2) Ecology (cont'd)

c. In February 2004 a consolidated company was informed that a Prosecutor of Environmental Crimes of in Catalonia, Spain, instituted a criminal proceeding in which it filed a brief in the Magistrate's Court in Spain, against the former and current managers of an ICL Fertilizers company that operates mines in Spain, claiming that the managers violated local legislation and caused groundwater contamination due to seepage of salt waste from the salt mounds which have been a by-product of the potash plants over many years, in part before ICL Fertilizers acquired the company. An application for an order prohibiting the continued dumping of salt was set aside by the Court in 2007. The criminal proceedings against the managers are pending.

d. ICL Fertilizers has two potash production sites in Spain. Salt, which accumulates in heaps, is a by-product of the production of potash. Most of the accumulated salt is of no use. Periodically, ICL Fertilizers needs to obtain permits to make these heaps in the sites and to renew the "environment license" every 8 years (as is true for every other in Spain).

Regarding the environment license, for both sites a license was received in 2007 (effective up to 2015).

Regarding the license to make salt heaps on the sites, with respect to the first site there is a permit to make heaps on the site that will be sufficient for about 20 years (up to 2026) at the current level of production. Regarding the second site there a license to make heaps that is sufficient, based on the current level of production, for an additional about 3 years. ICL Fertilizers is working to renew this certificate for an area that will be sufficient, based on the current level of production, for about 30 years.

e. In March and June 2007, three lawsuits were filed in the District Court of Beer Sheva against the State of Israel and the Local Industrial Council Ramat Hovav, in whose jurisdiction factories in the Ramat Hovav operate, including factories of ICL Industrial Products. The plaintiffs claim that various forms of pollution originating in the Ramat Hovav industrial zone caused the diseases that they suffer from. Sums are claimed in the suits for expenses of treatment for the plaintiffs as well as compensation for pain and suffering, and penal damages. In the statements of claim, the plaintiffs state the sums claimed as being about $63 million.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

A. Israel Chemicals Ltd. (ICL) (cont'd)

2) Ecology (cont'd)

c. (cont'd)

In May 2008, the Local Council filed a third party notice against a number of factories in Ramat Hovav, the Israel Electric Corporation and the factories of ICL Industrial Products. In December 2008, the State also filed a third party notice against the same factories. The notices allege that if the Council or the State are held to be liable to compensate the defendants [sic], then the compensation obligation must be imposed upon the factories, or they must be required to indemnify the Council or the State for any compensation that they are required to pay to the plaintiffs.

The claim is in the very initial stages and the statements of defense of all of the litigants in the proceedings have not yet been submitted. At this stage, ICL is unable to assess the claim's chances of success or the extent of ICL Industrial Products' exposure for compensation of the plaintiffs, compared with the rest of the defendants, however, it appears that the chances of the claim being upheld in full against all of the parties and imposition of the entire amount of the claim on ICL Industrial Products are low.

f. A claim and application to approve it as a class action was filed with the District Court of Beer Sheva in November 2007 against Bromine Compounds Ltd., a company in the ICL Industrial Products segment. The plaintiffs claim that the defendant's factory emitted hazardous substances into the air. According to the plaintiffs, the defendant must pay Negev residents "financial compensation for harm to autonomy of will and for imposing a health hazard" and to provide "a fund for medical observation purposes". The sum claimed in the class action is $286 million. At this initial stage, ICL Industrial Products is unable to assess the chances of the claim, if any, or of the application to approve it as a class action.

3) Increase in level of Pond 150

As part of the evaporation process, salt precipitates into the bed of one of the evaporation ponds at Sodom, in one of the sites of DSW, of ICL Fertilizers. The precipitate salt creates a layer on the pond bed of approximately 20 in height annually. The process of production of the raw material requires that a fixed brine volume is preserved in the pond. To this end, the water level of the pond is raised by approximately 20 centimeters annually.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

A. Israel Chemicals Ltd. (ICL) (cont'd)

3) Increase in level of Pond 150 (cont'd)

The Ein Boqeq and Tamar hotels, the town of Neve Zohar and other facilities and infrastructure are situated on the western beach of this pond. Raising the water level of the pond above a certain level is likely to cause structural damage to the foundations and the hotel buildings situated close to the water's edge and to other infrastructure on the western shoreline of the pond, depending on the height to which the water level is raised and the location of the relevant object.

The above-mentioned situation requires the establishment of defenses for the relevant objects. Such protections are divided into two stages. The first is the stage of temporary defenses, which are supposed to provide protection pending the implementation of a permanent solution. The second stage is that of the permanent solution which is supposed to provide protection until the end of the current concession period (i.e. until 2030).

Temporary defenses: These defenses are characterized by constructing a dike near the relevant hotels together with a system for lowering the ground water, in some places. As part of the treatment of these defenses, a number of temporary defenses have been implemented for several years along the western shore of the pond. At the present time, additional protection alternatives are also being examined in Pond 5, including establishment of a temporary lagoon and construction of jetties.

As at the date of publication of this report, the assessment is that the permanent solution will not be completed prior to 2015. Since the existing interim defenses will not provide a solution at that time, this requires the construction of additional interim defenses that will provide a solution until such time as the permanent solution is completed. There is no certainty as to whether the construction of these defenses will finish on the dates required by the height of the level of the pond, since there might be delays flowing, inter alia, from the need to receive the permits required by law (which are subject to complex and lengthy proceedings), and for other reasons. Delays in constructing the interim defenses could cause significant damage to the hotels and/or to DSW.

The issue of defenses (both temporary and those that are part of the permanent solution) is being handled by the government, which has mandated that the Ministry of Tourism coordinate the issue and has declared the protections project a project of national importance. In order to advance the project, in 2008 the State set up a new government company named The Company for Protection of the Dead Sea.

According to publications by the State, it has allocated sums for effecting additional interim protections, and for feasibility studies on the permanent solution.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

A. Israel Chemicals Ltd. (ICL) (cont'd)

3) Increase in level of Pond 150 (cont'd)

Permanent Solution: The State is examining three alternative permanent solutions. The harvesting alternative – which is based on harvesting the salt from the pond bed in order to keep the pond level constant; the lagoon alternative – which is based on construction of another dike within the pond, which would separate the area near to the hotels, where the water level would remain constant and the precipitating salt would be harvested, from the rest of the pond in which the water level would continue to rise each year. There is also an alternative of moving the hotels being discussed.

A decision has not yet been made as to which of these alternatives will be implemented. The feasibility studies are supposed to provide the basis for deciding which alternative will be chosen.

Hotels Union Petition: In 2006, the Dead Sea Hotels Union filed a petition to the High Court of Justice. It requested that the Court order the State: to abandon the hotel removal alternative; to decide which of the other two remaining alternatives (harvest or lagoon) would be implemented; that the permanent solution be completed no later than the end of 2007; and to declare that the hotels would not bear any expense relating to the permanent solution. An interim injunction was also requested prohibiting the raising of the water level in Pond 5 above the level planned for the end of 2008.

The High Court held a number of hearings on the petition. The High Court held that there is a "need for special, constant and unwavering diligence" in handling the matter, and that it is important that budget decisions and statutory processes relating to the temporary defenses and the permanent solution be advanced with the relevant persons taking into account the time factor. The Court, which did not award the requested remedies, left the petition pending in order to receive reports from the State regarding the nature and speed of progress of the defense project.

Financing: Under the Arrangements Law of 2002, half of the financing of a certain portion of the interim defenses was imposed upon the State. The other half was imposed upon DSW, the Tamar Regional Council and the Hotels, in equal shares.

During 2007, the government ruled that the additional financing required for the interim defenses and for the above feasibility studies would be determined in negotiations that the Ministry of Finance would conduct with the various responsible persons (DSW, the Tamar Regional Council and the Hotels), and in the absence of an agreement, the matter would be resolved by legislation.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

A. Israel Chemicals Ltd. (ICL) (cont'd)

3) Increase in level of Pond 150 (cont'd)

As at the date of this report, DSW and the State are in agreement that DSW will bear 39.5% of the costs of the additional financing for the interim stage and the feasibility studies, and that the State, either directly or via the other entities (the Regional Council, the Hotels) shall bear the remainder of the costs. DSW's consent is conditional upon regulations being made by the Minister of Finance with respect to the above. It is clarified that the agreement states that it does not constitute a precedent for dividing the financing for the permanent solution, and that in the event of a dispute between DSW and the State regarding division of the financing burden for the permanent solution, if any, the section relating to dispute resolution appearing in the concession agreement signed by the State and DSW shall be implemented.

Site plan – as part of the decision to declare the defense project a project having national importance, it was decided to advance and special site plan for the matter named "TTL 35". The plan is being led by The Company for Protection of the Dead Sea. As things appear at the present time, the plan will be broken down into two parts – the immediate stage will include the needs for the upcoming years while in the second stage the permanent protections. The area of the plan has not yet been determined. In addition, the plan deals approval of mining and quarry sites from which the required building materials will be taken for protection of the hotels and for the DSW's needs up to the end of the concession.

4) In October 2007, a claim was filed in a court in Missouri, in the United States, against a subsidiary from ICL Performance Products segment (hereinafter – "the Subsidiary") by a drug company. The drug company alleges that it was required to recall finished products from the shelves due to an allegedly faulty product supplied by Astaris (before its operation was purchased by ICL Performance Products) and by the Subsidiary, which was a raw material in the finished product of such drug company. The drug company is suing for damages and compensation in the sum of more than $15 million. ICL Performance Products considers Astaris and the sellers of the operations and assets of Astaris as being responsible for all the damages caused, if any. In the estimation of ICL Performance Products, even if it is ultimately found that it is responsible for the damage caused, the monetary exposure from this claim is not significant.

5) On July 31, 2008, the Clean Air Law, 2008 was enacted, which is intended to regulate the treatment and supervision of air pollution in Israel. The Law's provisions relevant to ICL Fertilizers are to be applied gradually, partly as of 2011 and partly as of 2014. A considerable portion of the Law's provisions are to be implemented through regulations that have not yet been promulgated, and the promulgation date thereof is up to 2010. ICL Fertilizers is continuing to prepare for implementation of the Law's provisions.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

A. Israel Chemicals Ltd. (ICL) (cont'd)

6) In 2008, Israel National Roads Company filed a claim for compensation in the amount of $10 million, in respect of damages caused to bridges located along Highway 90. The plaintiff alleges that the damages were caused also as a result of the company's materials, which spilled out of trucks that transported it to the port in Eilat. The company, based on the assessment of its legal counsel, estimates that it is more reasonable that the lawsuit will be dismissed than it will be accepted. Therefore, no provision was recorded in the company's books of account for the aforementioned sum.

7) Various claims (including legal claims) are pending against ICL and several of its subsidiaries. In respect of claims in the amount of $11 million as at December 31, 2007, ICL and the subsidiaries have recorded a provision of $2.3 million at this date. In addition, for some of the aforementioned claims there is insurance coverage. In the opinion of the managements of the companies, based on the opinion of their legal advisors, these amounts will be sufficient to cover the liabilities that they may incur.

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

1) Class Action Claim – Kiryat Tivon and Statement of Charges (against Carmel Olefins (COL)) in connection with emission of black smoke

On March 26, 2005, two plaintiffs (hereinafter – "the Claimants") submitted a statement of claim in the District Court of Haifa against ORL, COL, the CEO of ORL and the CEO of COL (hereinafter – "the Respondents"). The Claimants also submitted a request for certification of the claim as a class action claim pursuant to the Class Action Claims Law, 2007 (hereinafter – "the Request for Certification"). The Claimants contend that the emission of smoke from the factories of the Respondents, which took place on September 15, 2003 and October 5, 2003, created for them and for the Members of the Class they represent, causes of action in accordance with the Damages Ordinance [New Version] against the Respondents, particularly regarding negligent conduct, violation of a statutory duty and a nuisance to an individual. In total, the Claimants set their claim against the Respondents at the amount of about $40 million.

The parties submitted a request to the court for approval of the compromise arrangement they reached. As part of the compromise, if approved, ORL will invest $170,960 in financing an educational plan on the subject of environmental quality (including attorneys' fees). The approval process for a class action claim is covered by the Class Actions Law. As part of the compromise approval processes, the Attorney General requested that an examiner be appointed who will examine facets of the compromise arrangement and its implementation.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

B. Oil Refineries Ltd. (hereinafter – "ORL") (cont'd)

1) Class Action Claim – Kiryat Tivon and Statement of Charges (against Carmel Olefins (COL)) in connection with emission of black smoke (cont'd)

In ORL's estimation, based on its legal advisors and on the course of action of the insurers, the claim is covered by an insurance policy (except for policyholder's participation amount) and ORL is making efforts regarding this matter with the cooperation of its insurers. In respect of this claim, ORL recorded a provision in its books of $200 thousand. Upon COL's acquittal in the Magistrate's Court regarding the criminal proceedings in connection with the events that are the subject of the claim, the claim was cancelled against COL and its CEO, with the consent of the plaintiff. Regarding this matter – see Section 4, below.

2) Actions pending in connection with the Kishon River

a. Between 2001 and 2005, a number of lawsuits were filed against ORL, Gadiv Petrochemical Industries Ltd. (hereinafter – "Gadiv"), COL and other additional defendants (including the State of Israel) in Haifa District Court by 50 ill individuals (or their heirs or dependants), most of them fishermen who had worked, according to the claims, in the Kishon's fishing harbor. The plaintiffs claim that the diversion of wastewater into the Kishon by all of the plants operating on the banks of the Kishon River caused them to suffer from cancer (and other diseases). Dozens of plants and government entities were also joined as third-party defendants to these lawsuits, including Gadiv, COL and authorities. During clarification of the claims, 9 plaintiffs retracted their claims and they were dismissed.

Since these claims are for physical injury, the plaintiffs are not required to quantify the amounts sought as damages. At the preparation date of the financial statements, the damages claimed are approximately $36 million and about $1 million in respect of pending claims that coincide with the main damages, for a total of about $37 million, as of the date the claims were filed, plus CPI adjustments and interest from the time of the illness or from the date of filing the claim, as well as punitive damages, their care expenses and third-party assistance, a small part of which was not quantified, attorneys' fees and expenses. It is clarified that an arithmetical addition of the amounts quantified in the statements of claim is involved, and not an evaluation of the defendants' risk or the risk to which ORL, Gadiv and COL are exposed.

As of the approval date of the financial statements, these cases are in the witness testimony stage. In the first stage, the Court considered the question of causative relationship in the narrow sense, meaning the connection between the substances found in the river and the plaintiffs' injuries. These actions involve highly complex fact patterns spanning decades and involving over one hundred parties (plaintiffs, defendants and third parties), and constitute a precedent-setting case, both in terms of the nature of the claim and the division of responsibility among the defendants and third parties.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

B. Oil Refineries Ltd. (hereinafter – "ORL") (cont'd)

2) Actions pending in connection with the Kishon River (cont'd)

a. (cont'd)

The defendants, including ORL, Gadiv and COL, denied their responsibility for the plaintiffs' damages and contended, among other things, that the plaintiffs' claims are statutorily barred, the materials referred to in the statements of claims and/or were not flowed into the river or the materials that were flowed into the river are not carcinogenic and/or damaging to human health, and that if, in fact, the defendants contracted diseases and if the waters of the Kishon River or the riverbed caused or contributed to their illnesses, and if the plaintiffs' illnesses derive from human action or inaction (where all that stated was denied) – the plaintiffs' said illnesses were caused by their own negligence and/or breach of legal obligation by the plaintiffs themselves.

In addition, the defendants filed a joint notice to third parties against about 50 different entities, including additional plants, employers, local authorities and government entities, most of which also filed statements of defense and denied responsibility for the plaintiffs' damages.

ORL and Gadiv also sent third party notices to the insurance companies, which issued various insurance policies to them over the years and which they allege if the Court should find them responsible for the plaintiffs' damages and they are required to pay compensation in respect of such responsibility, the insurance companies will be required to indemnify and/or compensate them. The insurance companies contend, among other things, that the policies expressly exclude bodily injury caused to a third party as a result of pollution; the said pollution was continuous and not sudden and, therefore, is not covered by the policies; the actions and inactions of ORL and Gadiv are not covered by the policies, etc. In addition, ORL filed a third party notice against Gadot Petrochemicals Industries Ltd. (hereinafter – "Gadot"), in accordance with the agreement under which ORL acquired Gadiv from Gadot, which constituted Gadot's petrochemicals segment.

Based on the aforementioned notice, if the Court decides that ORL and/or Gadiv are to be held liable for actions and inactions, in whole or in part, in Gadot's petrochemicals segment and/or for any damages arising, in whole or in part, and/or that were discovered, in whole or in part, in the period prior to January 31, 1994, Gadot is required, by virtue of its commitments under the above-mentioned agreement, to indemnify ORL and Gadiv for any amount they are required to pay to the plaintiffs.

Notwithstanding that stated above, based on the evaluation of its legal advisors, and in light of the factual and legal complexity of these proceedings, the initial stage in which they are pending, and the multitude of parties involved, ORL cannot estimate its exposure with regard to these claims and no provision has been included in its financial statements.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

B. Oil Refineries Ltd. (hereinafter – "ORL") (cont'd)

2) Actions pending in connection with the Kishon River (cont'd)

b. During the years 2000 through 2007, a number of claims were filed against a range of defendants, including ORL, Gadiv, and COL, in the Haifa District Court by former soldiers (as well as their heirs and dependants). The plaintiffs claim that as a result of contact with toxic substances in the Kishon River and its environs, they suffered cancer and/or other diseases. As of the approval date of the financial statements, 19 of the plaintiffs had revoked their claims and they were dismissed. As at the date of the report, there remain 93 claims for 91 soldiers, amounting to approximately (in nominal values as at the filing date of the claims) $73 million – the cash estimate of the damages (special/general damages), the dependants' claim about $21 million (that partially overlaps with the special damages), about $36 million in punitive damages (all these amounts being accurate as at the filing date of the claims). Since these are claims for bodily injury, the plaintiffs are not required to precisely quantify the full amount claimed. Other principal damages not assessed in monetary terms in the statements of claim, include loss of future earnings, medical expenses, in some cases loss of earnings in the lost years, etc., and interest and linkage differentials, attorneys fees and costs. It is clarified that an arithmetical addition of the amounts quantified in the statements of claim is involved, and not an evaluation of the defendants' risk or the risk to which ORL, Gadiv and COL are exposed. The defendants sent third party notices to many plants and authorities, including the State of Israel.

As at the date of the financial statements, the claims of about 76 plaintiffs are being adjudicated in accordance with a legal procedure whereby the claims described in subsection a., above, are also being adjudicated, whereas regarding the claims of an additional about 17 plaintiffs, the Court decided that in the initial stage the issue of the amount of the damages should be clarified and only thereafter should other matters in dispute be addressed.

These cases are in the initial hearing stages. Accordingly, the factual information regarding the plaintiffs and the nature of their alleged exposure is mostly unknown to the defendants and third-party defendants, including ORL, Gadiv and COL. These actions involve highly complex fact patterns spanning decades and involving hundreds of parties (plaintiffs, defendants, and third parties), and constitute a precedent-setting proceeding, both in terms of the nature of the claim and regarding the division of the responsibility among the defendants and third parties.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

B. Oil Refineries Ltd. (hereinafter – "ORL") (cont'd)

2) Actions pending in connection with the Kishon River (cont'd)

b. (cont'd)

The defendants, including ORL, Gadiv and COL denied their obligation to compensate the plaintiffs and argued, among other things, the claim of the soldiers is statutorily barred, the soldiers received payments and/or other benefits under the Disabled Persons Law (Payments and Rehabilitation), 1959 [Integrated Version] and/or under the Law for Families of Soldiers that Died in Service (Payments and Rehabilitation), 1950 and, therefore, they are not entitled to claim damages; the defendants are not guilty of any action or inaction and/or violation of any statutory duty vis-à-vis the plaintiffs, the fault of the soldiers and/or other persons or entities is what caused the claimed damages, if any, and particularly the fault of the State of Israel, including the Army, which through their negligence caused the soldiers' illnesses.

ORL and Gadiv (which were joined to the action as a third party) sent a third and fourth party notice to the insurance companies, which issued various insurance policies to them over the years and which they allege if the Court should find them responsible for the plaintiffs' damages and they are required to pay compensation in respect of such responsibility, the insurance companies will be required to indemnify and/or compensate them. The insurance companies filed statements of defense and repeated their contentions as noted in Section A, above. In addition, ORL filed a third party notice against Gadot, based on the same contentions as detailed in Section A, above.

Nevertheless, based on the evaluation of its legal advisors, and in light of the factual and legal complexity of the cases, the initial stage in which they are pending, and the multitude of parties involved, ORL is not able to estimate its exposure in connection with the claims and no provision has been included in the financial statements in respect thereof.

c. The Haifa Rowing Club Association filed a class action in the Haifa Magistrate's Court under the Prevention of Environmental Hazards Law (Civil Claims), 1992, against a number of factories along the banks of the Kishon stream. The claim requested termination of the flow of effluents into the Kishon, and an order to rehabilitate the stream and restore it to its original condition. Many plants were joined to the claim as third parties, including ORL, Gadiv and COL, and authorities, including the State of Israel. On March 29, 2007 the court summarily dismissed the claim and allowed the authorities to exercise their discretion in connection with the rehabilitation of the Kishon, noting the practical steps taken by the authorities and the defendants to improve the condition of the Kishon and the considerable improvement in recent years in the quality and condition of the stream's water. The Association appealed the ruling to the District Court of Haifa.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

B. Oil Refineries Ltd. (hereinafter – "ORL") (cont'd)

2) Actions pending in connection with the Kishon River (cont'd)

c. (cont'd)

In the period of the report, a court judgment was rendered canceling the appeal with consent of the parties, without ORL and Gadiv being required to bear any monetary or legal obligation in connection therewith and without being prevented from filing another claim with respect to the matter.

d. A claim was filed by Israel Shipyards against ORL and 11 other parties including Gadiv, COL and an affiliated company, claiming that the pollution of the Kishon River by the defendants caused various damages to the plaintiff's facilities that located along the river. The amount of the claim is $5.5 million as at its filing date (January 2004). As at the date of the financial statements, the claim is in the pre-trial stages and hearing of the proofs is in the case is expected to begin in 2009. On March 18, 2008 the plaintiff and Carmel Olefins signed a compromise agreement according to which the lawsuit against Carmel Olefins will be dismissed and all procedures relating exclusively to Carmel Olefins will be deleted from the experts' opinion on behalf of the plaintiff. In the compromise agreement, Carmel Olefins undertook that if a compromise is achieved with the consent of most of the defendants and third parties, which will end all proceedings in the lawsuit, it will participate in 2.8% of the amount paid to the plaintiff under the compromise agreement. On March 26, 2008 this compromise agreement was given the validity of judgment. Carmel Olefins is negotiating with the plaintiffs to prevent it from being served a third-party notice therefore its final status in the case has yet to be clarified. In the current situation, the legal counsels of Carmel Olefins estimate that Carmel Olefins will not be charged a material amount for this suit, if any amount at all.

e. On July 18, 2006, the Minister of Environmental Protection sent a letter to the Minister of Finance in connection with privatization of ORL. The letter describes initial findings of a survey that examines the extent of the pollution in the Kishon River, according to which there is a ground layer having a depth of several meters and a length of a number of kilometers running along the contour of the river that is contaminated. The Minister of Environmental Protection added that after receipt of the survey's results he intends to demand from the plants, where the survey demonstrates that they contributed to the contamination, to bear the costs of removing the contaminated elements from the river, the treatment thereof and removing them to an appropriate site. Based on the initial estimation of the Minister of Environmental Protection, the said costs may reach hundreds of millions of shekels. In his letter, the Minister of Environmental Protection contends that part of the contamination accumulated over the course of many years derives from the petrochemical industry on the banks of the Kishon River, including Oil Refineries.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

B. Oil Refineries Ltd. (hereinafter – "ORL") (cont'd)

2) Actions pending in connection with the Kishon River (cont'd)

e. (cont'd)

On January 7, 2007, the Minister of Environmental Protection notified that he recently received the interim findings of the aforesaid survey conducted by the Kishon River Authority, and such findings indicate that the floor of the Kishon River is contaminated by heavy metals and mainly organic materials deriving from fuel products (fuel carbons). The letter states that based on the survey about 450 thousand tons of contaminated ground must be removed and that the initial estimate of the cost is about $13 million. The letter also states that the Kishon River Authority will now examine whether a causal connection can be made between the industrial processes executed on the banks of the river and the mire components that contaminated it.

In the period of the report, ORL and Gadiv were provided for their comments a draft of the findings of the survey that attributes to them a contribution at the rate of about 0.34% to the heavy metal content allegedly found in sediments examined in the study and a contribution at the rate of about 87.5% to the content of the organic material from the fuel products source. ORL requested all of the data that was available to the performers of the survey and received part of the requested information. On the basis of the data transferred, ORL believes that the findings of the survey do not meet the audit standards, and regarding this matter it is in contact with the Ministry of Environmental Protection.

As this stage, ORL's management is unable to estimate the final results of the survey, the extent that the findings will demonstrate the share of ORL's responsibility, if any, for the contamination found, if found, whether and under what legal mechanism ORL can be required to perform the actions noted in the Minister's letter, as a result of that stated, and the amount of the costs ORL will be required to bear.

3) On May 12, 2008, a hearing was held in the Ministry of Environmental Protection in Haifa for Petroleum and Energy Infrastructure Company Ltd. (PEI), Eilat Ashkelon Pipeline Company Ltd. (EAPC) and ORL as a result of contentions of the Ministry of Environmental Protection whereby during an inspection made close to the fishing harbor in the PEI strip wherein Haifa Refinery and EAPC pipeline works are performed, findings were discovered that could indicate pollution and that soil suspected of being polluted was removed from the area to the Haifa Refinery. At the hearing held, ORL notified that it patrols the strip, the pipeline has cathode protection, the pipeline is tested before any flow is made therein and that the test results indicate there was no leakage from the pipeline. Notwithstanding that stated above, ORL cannot rule out the possibility that there is exposure with respect to this matter, in amounts that at this stage it is unable to estimate due to the fact that, among other things, the scope of the pollution, if it in fact exists, is unknown. In addition, ORL does not know if there is, in fact, pollution, when it was created and who is responsible.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

B. Oil Refineries Ltd. (hereinafter – "ORL") (cont'd)

4) On October 23, 2008, Carmel Olefins was served with a request for certification of a class action claim pursuant to the Class Actions Law, 2006, which was filed on October 5, 2008 in the Tel-Aviv District Court (hereinafter – "the Request"). The Request was filed for non-monetary damages allegedly caused by two smoke emission events that occurred on September 15, 2003 and October 5, 2003, where in a prior class action regarding the matter filed against ORL and Carmel Olefins, the plaintiffs agreed to remove Carmel Olefins from the claim. In the Request, the claimant seeks to represent the residents of the Haifa Bay area and those who were present in the area (hereinafter – "the Group") and were exposed to the smoke emissions on the said dates. The claimant asserts that each of the members of the Group should be compensated in the amount of $263 in respect of the damage allegedly caused. The Request does not state the estimated number of the Group's members and does not state the total amount the claimant contends that the members of the Group should compensated. It is stated in the Request that it was filed following the results of a criminal procedure maintained against Carmel Olefins, wherein Carmel Olefins was convicted, based on its own admission, in an amended indictment relating to the events, by the Supreme Court.

Since the new claim was filed in connection with the same matters and the same damages claimed, which are the subject of the claim described in subsection 1) above, and in light of the significant similarity and overlapping of the claims, Carmel Olefins filed a request in the District Court of Tel-Aviv to transfer the hearing of the new claim to the District Court of Haifa, which is hearing the parallel claim. The requesting party objected to Carmel Olefins' request and, as at the date of the financial statements, the decision of the District Court of Tel-Aviv has not yet been rendered. At the same time, negotiations are being carried on between Carmel Olefins and the requesting parties in the claim being tried in Haifa for the purposes of examining the possibility of including Carmel Olefins in a complementary compromise agreement to the compromise agreement formulated with respect to the claim against ORL.

In ORL's estimation, based on the opinion of the legal advisors of Carmel Olefins, in view of the early stage of the claim, the complexity of the process and the fact that no amount was stipulated in the Request, it is not possible to evaluate the amount of ORL's exposure.

5) On December 17, 2006, the Minister of National Infrastructures appointed an inter-ministerial team to examine the question of the location of plants in the Haifa area. The team was instructed to formulate a position regarding the location of plants in the Haifa Bay area in light of an analysis of the dangers latent in such plants, including the level of pollution escaping from the plants and the need for them, if the team formulates proposals for alternative sites and recommendations for operative actions. The team was required to complete its work and submit its recommendations to the Minister of National Infrastructures by June 28, 2007. As at the date of the financial statements, ORL is not aware whether the team has commenced its activities and it is unable, at this stage, to estimate the consequences of the matter to ORL.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont’d)

B. Claims (cont’d)

2. In subsidiaries (cont’d)

B. Oil Refineries Ltd. (hereinafter – “ORL”) (cont’d)

6) In a letter dated December 11, 2006, sent to ORL by TSN, TSN requests to direct ORL’s attention to two matters in the area of environmental protection that TSN believes require a discussion between it and ORL. One matter raised in the letter has its source in the annual report of the Ministry of Environmental Protection from 1997 wherein it was determined that in the area of the fuel pipeline passageway near the fuel port in Haifa there is massive pollution of the ground and the subterranean water the source of which is leaks occurring in the old pipeline or that occurred at the time of its replacement with the new pipeline (a passageway through which ORL’s pipes run). The second matter involves TSN’s contentions regarding the existence of a number of pollution centers in the tank yard at the Kiryat Haim terminal and at Elrohee (TSN contends that these two tank yards were operated by ORL up to the mid 1990s). TSN claims that it is difficult to estimate the monetary and other consequences of these problems and TSN demands that these matters be discussed as soon as possible in order to reach an agreed upon solution. ORL has not yet responded to the said letter. A preliminary examination conducted by ORL in connection with the said contentions indicates that over the last 15 years no there have been no reports of leaks from ORL’s pipelines in the fuel pipeline passageway to which TSN referred, and that ORL did not operate the two tank yards during the entire period claimed by TSN. Notwithstanding that stated above, ORL is not able to rule out the possibility that it has exposure with respect to this matter, in amounts it is unable to estimate at this stage since, among other things, the scope of the pollution, if and to the extent it currently exists, is not known and, in addition, ORL has no knowledge, assuming there is pollution, when it was created and on whose responsibility.

Subsequent to the balance sheet date, on January 25, 2009, a hearing was held at the Ministry of Environmental Protection for ORL and PEI regarding two specific sites located in the pipeline corridor in the section adjacent to the refinery wherein, according to the Ministry, soil and groundwater were contaminated by fuel products. After the hearing, ORL and PEI were required to close the two pipelines along which leakage was found; to return them to operation following repair and/or replacement; to test impermeability of all the pipelines and to submit the results to the Ministry of Environmental Protection. During the hearing, it was clarified to ORL and PEI that if the repair and rehabilitation process does not commence within seven days after the hearing, including the removal of the contaminated soil, the Ministry would issue an order for cleanup and removal of the toxic substances. The Ministry gave notice that the Green Police of the Ministry of Environmental Protection would investigate the events, including the failure of the companies to act to minimize damage and prevent further contamination of the river and its environs.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

B. Oil Refineries Ltd. (hereinafter – "ORL") (cont'd)

6) (cont'd)

On March, 1, 2009, ORL received a removal order for toxic substances, pursuant to section 16(A) of the Hazardous Substances Law, 1993 and a clean-up order, pursuant to section 13(B) of the Maintenance of Cleanliness Law, 1984, requiring that ORL, PEI and their CEOs submit plans to the Ministry of Environmental Protection for soil gas, soil and groundwater surveys and to fence off the contaminated areas and to conduct the survey in accordance with the approved plans. The parties are further required to submit to the Ministry a report of the survey findings, including recommendations for the clean-up and rehabilitation of the contaminated soil and groundwater and the restoration of the river and its banks to their former condition, based on the findings of the survey. The parties will also define a short-term and binding timetable for implementing the recommendations of the survey, until all waste and toxins are removed from the soil and groundwater.

ORL has submitted its plan for the soil gas, soil and groundwater survey to the Ministry of Environmental Protection for approval.

As of the approval date of the report, ORL is unable to assess the outcome of the survey, the actions required according to the outcome and the expenses ORL will incur when implementing these measures, if any.

7) Subsequent to the period of the report, ORL and EAPC were required, under the terms added to their business licenses, to conduct soil surveys along the pipeline corridor connecting the Haifa refinery to the fuel port wherein, among other things, the pipelines used by ORL and EAPC are located and to apply the survey recommendations according to the suggested timetable approved by the Ministry of Environmental Protection. ORL appealed this condition in its business license through the procedure set up by the law. The Ministry of Environmental Protection has not yet responded to the request. As at the date of the report, ORL is unable to estimate if it will be required to execute the survey, and if so – what the results of the sector will, the actions it will be required to take as a result thereof (if any) and the scope of the expenses ORL will incur, if any, in implementation of such actions.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

B. Oil Refineries Ltd. (hereinafter – "ORL") (cont'd)

8) On April 10, 2008, the Ministry of Environmental Protection sent a letter to Carmel Olefins claiming that on April 9, 2008 black smoke was emitted from the company's polypropylene plant for cumulative periods of over six minutes an hour which, according to the Ministry, constitutes a breach of the provisions of the Personal Order. As a result of the alleged event, Carmel was summoned to a hearing on May 1, 2008 at the offices of the District Director of the Ministry of Environmental Protection. It is noted that Carmel Olefins disagrees with the emission provisions in the event of a malfunction included in the Personal Order (which include a provision whereby smoke emission may not exceed a cumulative period of six minutes an hour), since it contends that the provisions are not practicable and Carmel Olefins is unable to comply with them. Carmel Olefins is working with the Ministry of Environmental Protection to change the emission provisions in the event of a malfunction. It is noted that in the hearing held on August 19, 2007 following a similar event of smoke emission, Carmel Olefins was informed that any further deviation from the provisions of the Personal Order will result in an investigation by the Ministry of Environmental Protection. On May 19, 2008 Carmel Olefins received the protocol of the hearing regarding the incident, including a demand "to immediately shut down the operations at the monomer plant until fulfillment of all the requirements according to "best available technique" (hereinafter – "BAT"), including the backup required to prevent malfunctions, to the satisfaction of the Ministry and the Haifa District Municipal Association". On May 25, 2008 Carmel Olefins shut down the installations (hereinafter – "the Temporary Shutdown"). In the framework of the Temporary Shutdown, Carmel Olefins carried out various operations to ensure that BAT in Lapid will be operated in optimum processes, including backups required to prevent malfunctions. Carmel Olefins estimates that after the Temporary Shutdown, it is in compliance with all the requirements presented by the District Manager regarding Lapid. However, Carmel Olefins emphasized to the District Manager that this will not solve the matter of the emission provisions in the event of a malfunction and requested the appointment of a professional committee to study the matter. On July 6, 2008, a hearing was held for Carmel Olefins with the District Manager following the District Manager's allegations of failure to comply with the provisions of the Personal Order and generation of unreasonable air pollution regarding a smoke emission event from the Carmel Olefins plant on June 21, 2008. In the minutes of this hearing, the District Manager ordered Carmel Olefins, among other things, to shut down one of its polyethylene plants until tests are completed and conclusions drawn and ordered that the tests be performed by a German expert within two weeks from the date of the hearing. The District Manager further ordered that the German expert's report be submitted and that his conclusions be applied within one month of the hearing. Carmel Olefins implemented the requirements set forth in the minutes of the hearing and shut down one of its polyethylene plants, which was reopened after the test thereof on July 18, 2008.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

B. Oil Refineries Ltd. (hereinafter – "ORL") (cont'd)

9) On May 25, 2006, ORL was served with a Personal Order pursuant to the provisions of the Law for the Prevention of Nuisances, 1961, which replaced the previous Personal Order. The Personal Order applies to ORL emission standards from all sources of emissions individually and emission standards from the entire area of the plant, including provisions pertaining to the types of fuel that are permissible to burn at ORL's plant. These standards will become more stringent on November 25, 2008. The Order stipulates that ORL submit action plans for compliance with the stringent standards for approval by the Ministry for Environmental Protection. The Ministry formulated an amendment to the provisions of the specific Order, based on the assumption that ORL's facilities will burn only natural gas, and published it for public review. ORL gave notice to the Ministry of the Environment that it has started to act in accordance with the provisions of the amendment that was formulated. As of the date of the financial statements, the amendment to the Order has yet to be signed. Pursuant to the Personal Order, ORL is also required to continuously monitor the plant's smokestacks. The target date for the standards regarding emissions from the smokestacks and standards regarding emissions from the entire plant is November 25, 2008. In addition, the Order stipulates that ORL must conduct a survey regarding unfocused emissions from its facilities (in other words, emissions to the air which do not come from smokestacks, vents, flames, or designated sources of emission, but from pipe joints, faucets, pools, etc.) and to plan and implement a plan for the reduction of unfocused emissions and the constant monitoring thereof. Regarding these issues, the Order stipulated that ORL must submit action plans for the approval of the Ministry of Environmental Protection. The plans were submitted but deliberations have not yet been completed. The Ministry notified ORL that the plans do not address the issue of reducing unfocused emissions from area sources. On February 7, 2007, ORL submitted a supplementary plan on this matter. As part of the provisions of the Personal Order, ORL was charged with appointing a public ombudsman and advertising the ways in which he can be contacted. ORL was also charged with handling any complaint regarding foul odors it receives. According to the Ministry, the public complaints it receives indicate that the problem of odor pollution has not been solved yet and ORL's plant area is a source of many odor nuisances. According to the above, ORL has set up a system for the receipt and handling of public complaints regarding odor nuisances. As a result of receipt of the Personal Order, ORL formulated an action and investment plan (hereinafter – "the Investment Plan") that ORL's Management estimates will enable ORL to comply with the provisions of the Personal Order in accordance with the stipulated milestones.

Subsequent to the balance sheet date, in January 2009, ORL and Gadiv received from the Ministry of the Environment a warning and summons to a hearing relating to violations and apparent defective application of the provisions of the Personal Order ("the Warning"). The Warning described the apparent violations which referred to, inter alia, the time tables set forth in the Order, the results of the smokestack samples, the submission of certain plans as required in the Order and the manner of submission of information to the Ministry, as stipulated in the Order.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

B. Oil Refineries Ltd. (hereinafter – "ORL") (cont'd)

9) (cont'd)

Prior to the date of the hearing, ORL and Gadiv submitted their response to the warning they received, in which they detailed their arguments and responses to the issues included in the warning. At the conclusion of the hearing, goals and timetables were set for actions to be taken by ORL and Gadiv for the purpose of reducing the pollution at its facilities. ORL and Gadiv are preparing to implement the mandatory actions under the Personal Orders and are holding talks with the Ministry of Environmental Protection regarding additional actions stipulated by the Ministry.

ORL's Management estimates that if ORL is required to take the mandatory actions under the Personal Orders it received, this will not cause it expenses in excess of its planned expenses.

10) Two of ORL's partners in Haifa Basic Oils Ltd. (hereinafter – "HBO"), filed a claim against ORL, in the amount of $43 million, as well as request to certify the claim as a derivative action. The principal contention of the plaintiffs is that ORL, based on irrelevant considerations and adverse exploitation of its power, allegedly thwarted HBO's progress and has sabotaged its activities and development. The claimants allege than the input preparation facility, which is under ORL's sole responsibility, is old, poorly maintained and suffers from recurring defects, which have a severe adverse impact on HBO's work. It is further alleged that ORL does not provide appropriate input materials – neither with respect to the required quality or quantity – for HBO's activities and over the years the quality of the input materials provided to HBO has significantly declined, contrary ORL's obligations. The claim does not plead an express contractual obligation of ORL to comply with that demanded from it but, rather, that the existing contractual deficiencies are to be provided via various judicial tools. The plaintiffs request to certify the claim as a derivative action on the grounds that due to the equality between the two blocks controlling HBO, HBO is unable to realize its rights against ORL. As at the date of the prospectus, the claim had not yet been recognized as a derivative action. ORL filed its response to the request and the plaintiffs replied to the response. In ORL's response it is contended, among other things, that it never undertook to supply HBO certain foodstuff material in the quantity and composition that will positively impact HBO's earnings and that it is acting with respect to this matter as a supplier that is required to weigh its commercial considerations. ORL further argues that it is not required, as a shareholder of HBO, to prefer HBO's interest over ORL's interest. Moreover, ORL contends that it has no obligation whatsoever, whether contractual or legal, to upgrade, at its expense, the facility for preparation of the foodstuff for HBO. Also, ORL claims that the damages claimed are exaggerated and have no basis.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

B. Oil Refineries Ltd. (hereinafter – "ORL") (cont'd)

10) (cont'd)

As a result of a change in the crude oil standards commencing from August 2005, following which the crude oil price was updated, in June 2006 ORL contacted the fuel companies and HBO with a request that they will pay to ORL the updated price of the foodstuff material supplied to HBO starting from the date of the update as stated.

On April 30, 2007, a hearing was held regarding the request for certification of a derivative claim wherein it was decided that HBO's Board of Directors will discuss the decision to upgrade the plant and the parties were directed to a reconciliation proceeding regarding the rest of the disagreements. ORL was informed that HBO's Board of Directors decided that HBO will invest in upgrading the plant subject to reaching a long-term supply agreement with ORL covering the foodstuff, at prices to be agreed to and the quantities required for operation of the upgraded plant at full production. A reconciliation proceeding was held between the parties that was not successful and, therefore, the hearing of the claim by the court will continue. In the period of the report, ORL notified the plaintiffs and HBO that the price of the foodstuff materials and the return materials will be updated, commencing from the beginning of 2009, in accordance with their real prices and it invited them to hold fair negotiations with it in connection with update of the prices based on the market prices. After ignoring the situation for a long period of time, the plaintiffs and HBO denied ORL's right to update the prices as stated above.

In ORL's estimation, based on the opinion of its legal advisors, it is more likely than not that the monetary claim against it with respect to the past will be rejected and will not be accepted.

11) As a result of ORL's request to the City of Ashdod to receive approvals for purposes of registration in TABU of a transfer of real property from ORL to ORL Ashdod, as part of the split-up of ORL and sale of the refinery in Ashdod, the City of Ashdod issued to ORL a demand for payment of a Betterment Assessment in the amount of about $5 million and a demand for payment of various fees and charges in the aggregate amount of about $21 million. ORL filed an appeal, administrative petition and a different assessment in connection with the said demands.

12) In the period of the report, ORL and Gadiv reached an agreement with the City of Haifa regarding the amount of the municipal taxes ORL is to pay and ORL paid the agreed-to municipal tax amounts up to December 31, 2009. The City of Haifa issued municipal tax assessments to Carmel Olefins, commencing from 2005. In February 2008, the City of Haifa sent Carmel Olefins an amended annual assessment notice for 2008 in the amount of about $6 million. Pursuant to the assessment notice, the new assessment details were updated with effect from October 26, 2005, and an addition to the charge was made, in the amount of about $3 million, in respect of the period from October 26, 2005 and up to December 31, 2007.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

B. Oil Refineries Ltd. (hereinafter – "ORL") (cont'd)

12) (cont'd)

The balance of the debt claimed by the City of Haifa up to February 28, 2008 is about $11 million. Since the assessment has not yet been updated in the records of the City of Haifa, there is no updated data as at December 31, 2008. It was agreed between the City of Haifa and the parties to the said claim that the objections and appeals filed in respect of the charges for 2006 will also apply to the assessment notice for 2007. Carmel Olefins believes based on the evaluation of its legal advisors that it will ultimately pay municipal tax amounts lower than the full amount it was charged by the City of Haifa. In Carmel Olefins' estimation, the provisions existing in its books in respect of the City's demands are adequate.

13) Three fuel-marketing companies sued the Fuel Administration in the Ministry of National Infrastructures, ORL and an infrastructure company in the fuel administration, alleging that part of the inventory of crude oil stored by them in the infrastructure company's facility, about 38,000 tons, was not delivered to them as per their request, based on the contention that it was mired. The plaintiff companies contend that the defendants are responsible to them for delivery of crude oil in the above-mentioned amounts or for payment in respect of its value. The amount of the claim as at its filing date, November 2002, is about $7 million. The State, on its part, filed a claim against four fuel-marketing companies, ORL and an infrastructure company, to compensate it in the amount of about $32 million, as at the filing date of the claim (February 2004) due to damages it alleges were caused to the State as a result of amounts it paid over the years for holding emergency inventory of crude oil that the fuel-marketing companies now claim was mired and was unfit for use. Pursuant to the State's request, its claim was joined with the claim of the fuel-marketing companies. As part of the series of events forming the base of the dispute between the parties, the State filed suit against the fuel distribution companies for payment of valuation differentials of the crude oil inventory that was held by the distribution companies as part of the emergency stocks of the State which the State ordered no longer be held as emergency stock. ORL and the infrastructure company were issued third party notices by the fuel distribution companies. In this suit, the State claims that it is entitled to receive a payment of about $6 million as of the date of the filing of the suit (August 2007). The suit is based on the Supervisory Order over Goods and Services (Arrangements in the Fuel Economy), 1988, which set up an accounting mechanism between the State and the marketing companies regarding the value of the emergency stocks that were held, at the demand of the State, by the fuel distribution companies. In the third party notice filed by the fuel distribution companies, they reiterated their claims against ORL, in a suit they filed. ORL, for its part, filed a suit against the infrastructure company in the same matter, whereby the court was requested to declare that the crude oil reserves located in the facilities of the infrastructure company and appearing in its books as "unowned" crude oil, belong to ORL.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

B. Oil Refineries Ltd. (hereinafter – "ORL") (cont'd)

13) (cont'd)

Additionally, ORL was served with a claim of the infrastructure company, which was filed against the fuel distribution companies and ORL, alleging that the defendants own storage fees for the disputed reserves, from September 2000 onwards, in the aggregate amount of about $9 million. The remedy against ORL was claimed as an alternative remedy. The claim of the State for valuation differentials and the claim of the infrastructure company for storage fees are in the pre-trial phase. In respect of the other suits, the court issued instructions to complete the preliminary proceedings and the preparation of the main affidavits.

14) ORL and its investee companies are in the practice of recording provisions in their books for claims that in the estimation of their managements, based on their legal advisors, are likely to be realized. The provisions are made based on an estimate of the expected payments required to settle the liability. The additional amount of ORL's exposure, not including the claims included in Sections 1)2)3)4)6)7) and 8) for which no provision has been made amounts to $162 million.

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

ZIM and its subsidiaries are parties to various arbitration proceedings and lawsuits, in an aggregate amount of about $4.6 million. ZIM included a provision in its books, in the amount of about $2.6 million, which in the opinion of its legal advisors it may ultimately be required to pay in respect of the said proceedings and claims.

During the period of the report, ZIM notified that it is ending its joint cooperation with another shipping company. Subsequent to the balance sheet date, the other shipping company commenced arbitration proceedings against ZIM. In the opinion of ZIM's legal advisors, it is not possible to reliably estimate the amount of the claim.

D. Quantum (2007) LLC (hereinafter – "Quantum")

On July 20, 2008, a claim was filed against the Corporation, Quantum, Chery Automobile Co. Ltd. (hereinafter – "Chery") and individuals related to Chery, and against Cherry Quantum Auto Co. Ltd., a joint venture owned by Chery and Quantum. The claim was filed in Michigan in the United States by a U.S. company, V Cars LLC (formerly Visionary Vehicles) (hereinafter – "the Plaintiff"), which contended that it conducted negotiations with Chery for establishment of a joint venture for production of vehicles in China and distribution thereof in the United States. The contentions against the Corporation and Quantum include claims regarding use of confidential information that was provided to the Corporation by the Plaintiff, non-fulfillment of promises and breach of fiduciary obligations vis-à-vis the Plaintiff and making of a connection with Chery to prevent the Plaintiff's participation in the production, export, distribution and sale of Chery's cars in the United States.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

D. Quantum (2007) LLC (hereinafter – "Quantum") (cont'd)

The Plaintiff claims losses in the amount of about $26 million, allegedly caused to it, as well as a loss of future earnings from its anticipated share in the venture in the amount of about $14 billion during the 30 years the venture was expected to be in operation. The Plaintiff is requesting an injunctive order to protect the exclusive distribution franchise in the United States it was allegedly granted. In addition, the Plaintiff is requesting a reimbursement of legal expenses along with other legal remedies. On December 2, 2008 the Corporation and Quantum filed a request for cancellation of the claim due lack of jurisdiction of Michigan court to hear the matter.

Subsequent to the balance sheet date, on January 23, 2009, the Plaintiff filed a response to the request and on February 13, 2009, the Corporation and Quantum submitted a reply to the response. On March 18, 2009, a hearing was held in the Michigan court wherein the court accepted the request of the Corporation and Quantum to cancel the claim and on March 20, 2009 an Order was issued formally recording the court's aforesaid decision. The Plaintiff is permitted to file an appeal of the court's decision up to April 20, 2009, and the Plaintiff is permitted to attempt to file the claim in a different jurisdiction. The Corporation's legal advisors believe that if an appeal of the court's decision is filed, its chances of being accepted are not high in light of the fact that the judge decided the request after he heard and considered the contentions of the parties. Regarding the possibility that the claim will be filed in another jurisdiction, the Corporation's legal advisors note that at this stage it is not possible to assess the Plaintiff's chances of finding a basis for jurisdictional authority for filing the claim against the Corporation and Quantum in another jurisdiction in the United States. It is noted that the claim remains as it was with respect to the other defendants. It is further noted that as part of the joint venture agreement between Chery and Quantum, indemnification provisions were determined between the parties regarding damages arising as a result of legal proceedings taken by the Plaintiff.

C. Commitments

1. The Corporation

a. In accordance with resolutions of the General Meetings of the shareholders of the Corporation and of its subsidiaries, their Articles of Association were amended so as to permit them to indemnify and to insure their directors and officers, subject to the provisions of the Companies Ordinance and other restrictions.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

C. Commitments (cont'd)

1. The Corporation (cont'd)

b. In March 2001, a commitment for indemnification and the exemption of senior officers of the Corporation was approved (in addition to the insurance of senior officers), which does not apply to cases detailed in paragraph 263 of the Companies Law. The exemption is from the responsibility of senior offices for damages caused or to be caused by them as a result of a breach of the duty of care to the Corporation. The amount of the indemnification to be paid by the Corporation in excess of the amounts to be received from the insurance company, should such amounts be received, for each senior officer in the aggregate, in respect of one or more of the events detailed therein, was limited to 25% of the Corporation's shareholders' equity according to its latest financial statements published immediately prior to the beginning of the legal proceedings in respect of which the indemnification is to be paid.

c. On September 11, 2007, the Corporation's General Meeting approved an undertaking whereby the Corporation will purchase insurance policies for its officers (including those considered to be controlling interests in the Corporation), as they will be from time to time. The policy will insure the liability of officers of the Corporation and of subsidiaries it controls, as they will be from time to time. The maximum amount of the annual premium to be paid in the current insurance year will not exceed $350 thousand. The said decision constitutes a framework decision within the meaning thereof in Regulation (31) of the Companies Regulations (Transactions with Interested Parties), 2000 (hereinafter – "the Remedy Regulations"), which permit during a period of 5 years, commencing from the said insurance year, renewal of purchase of the insurance policy with respect to officers and directors, provided the Corporation's Audit Committee and Board of Directors will confirm in connection with the renewal that the acquisition terms of the policies conform with the conditions of the framework decision.

2. Israel Chemicals Ltd.

a. As at December 31, 2008, ICL and its subsidiaries have commitments in the amount of about $123 million to local and foreign suppliers for the purchase of raw materials in the regular course of business, and for various periods ending up to 5 years after the balance sheet date for all the agreement periods.

b. Certain subsidiaries of ICL have commitments to suppliers to purchase property, plant and equipment. As at December 31, 2008, there are commitments to invest about $178 million in fixed assets.

c. A subsidiary in the UK has signed a number of contracts for the lease of land used for mining potash. In general, the lease rentals are determined based on the quantities of potash mined in each mine. The two main leases are up to 2035 and 2017. Alternatively the latter may end in 2012 subject to advance notification of six months. The balance of the contracts are generally for periods of 35 years.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

C. Commitments (cont'd)

2. Israel Chemicals Ltd. (cont'd)

d. In September 2003, a long-term (20 year) supply agreement was signed between a subsidiary and the Chemtura Corporation, commencing from January 2004, under which the subsidiary will supply of bromine and bromine compounds.

e. Certain subsidiaries of ICL have commitments to pay royalties to the Government of Israel. The royalties are at the rate of 2% to 4% of the proceeds received from the sale of products regarding which the Government of Israel participated in the related research and development by way of grants. These commitments are not to exceed the rate of 100%–150% of the total dollar amount of the grants received by the subsidiaries (in respect of products manufactured in Israel). On the date of the receipt of the participation from the Government of Israel, the success of the development of the projects was not yet assured. In the event a project that was partially financed by Government participation involving the payment of royalties is not successfully completed, the ICL Group is not required to pay any royalties to the Government. As at December 31, 2008, the maximum amount of the royalties that the ICL Group may ultimately have to pay is about $10 million.

f. All the salt brine deriving from the manufacturing process of the Spanish subsidiary is disposed of through a large system of pipes leading out to the sea, called "Colector de Salmueras" (hereinafter – "the Colector"), which were built in a number of stages by the Catalonia government. The subsidiary in Spain is required to pay annual fees for the use of the Colector in the amount of $0.5 million up to and including 2019. If the subsidiary in Spain discontinues its activity before 2019, it will have to pay the Catalonia government for the rights to use the Colector in respect of the period from discontinuance of the activity until the end of 2019, unless the rights are transferred to another entity. The subsidiary in Spain also pays the amount of $0.4 million per year in respect of the operation and maintenance expenses of the Colector, and it is required to pay this amount for as long as it uses the Colector.

g. In 2008, a subsidiary in Spain signed an agreement with another company, Petroleum Oil & Gas Espania – (hereinafter – "Petroleum"), for the development of underground natural gas reserves.

Petroleum is interested in the development and utilization of natural gas reserves and plans to develop a production project to create spaces for the storage of natural gas using solution mining. An initial payment of €2 million was paid by Petroleum upon signing the agreement. If Petroleum should decide that the project is not feasible – the subsidiary will have to refund the proceeds received. In the financial statements a provision was recognized in the amount of the possible obligation. The subsidiary's management believes that the project is feasible and that the gas storage option can be carried out.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

C. Commitments (cont'd)

2. Israel Chemicals Ltd. (cont'd)

h. A proportionately consolidated company – I.D.E. Technologies Ltd. (hereinafter – "I.D.E.") has agreements under the BOT (Build, Operate, Transfer) method in connection with water desalinization, which are based on the "take or pay" principle, as follows:

1) An affiliated company of I.D.E. signed a BOT agreement from April 2001 with the State of Israel for the financing, planning, construction, operation and transfer to the State of Israel of a seawater desalinization plant in Ashkelon with a total production of 100 million cubic meters of desalinized seawater per year. The agreement is for a period of 24.5 years. Construction of the plant was completed in 2005 and its commercial operation was commenced in 2006. Subsequent to the balance sheet date, the State of Israel accepted the proposal of a proportionally consolidated company to expand the water treatment facility in Ashkelon. Within the framework of the expansion, an additional 15 million cubic liters of seawater will be treated annually.

2) A consolidated partnership of I.D.E. has an agreement with the Water Authority of Cyprus for the financing, planning, construction and operation of water desalinization plant having a capacity of about 17 million cubic meters of water per year. The agreement is for a ten-year period. Construction of the project ended in 2001 at which time the consolidated partnership commenced the operation thereof.

Thereafter, an agreement was signed to expand the facility by a further about 20 million cubic liters of seawater, until the end of the agreement period.

3) A proportionately consolidated company of I.D.E. has an agreement from November 2006 with the State of Israel for the financing, planning, construction, operation and transfer to the State of Israel of a seawater desalinization plant in Hadera with a total production of 100 million cubic meters of desalinized seawater per year. The agreement is for a period of 25 years (of which 2.5 years constitute the construction period).

Subsequent to the balance sheet date, the State of Israel accepted the proposal of I.D.E. to expand the treatment facility in Hadera. As part of the expansion, an additional 15 million cubic liters of seawater will be treated annually.

4) In June 2007, I.D.E. signed an agreement for construction of a seawater desalination plant in China for a local energy company in an overall scope of about $119 million.

5) In July 2008, I.D.E. signed an agreement with a customer in Australia to design and build a treatment facility with an annual volume of 46 million cubic liters.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

C. Commitments (cont'd)

2. Israel Chemicals Ltd. (cont'd)

i. On March 25, 2008, an agreement (hereinafter – "the Agreement") for supply of natural gas was signed between Dead Sea Works and the partners in the Yam Tathys Group, for the supply of natural gas to factories in the ICL Group Israel.

The total quantity of gas the ICL Group committed to buy from the partners in the Yam Tathys Group under the Agreement is approximately 2 BCM (about 2 billion cubic meters), subject to adjustments as detailed in the agreement ("the contractual gas quantity").

Supply of the gas is to commence upon completion of the pipeline transporting the gas from the South. As at the date of the report, based on the timetables provided by the transport company, Israel Natural Gas Lines Ltd., it appears that completion of the pipeline will take place in the second half of 2009. Supply of the gas will come to an end on the earlier of the following (subject to adjustments):

1) Five years from the end of the running-in period, however not later than September 2015 (subject to extension as detailed below).

2) Acquisition of the full amount of the gas as per the agreement.

The price of the gas will be determined according to a formula that is based on the price of crude oil, with a discount component including "floor" and "ceiling" prices. The ICL Group committed to "take or pay for" an annual minimum quantity of gas as stated in the Agreement and in accordance with a mechanism set forth therein.

The aggregate monetary scope of the agreement is estimated at about $260 million to $330 million.

3. ZIM

Undertakings in respect of operating leases of ships and related equipment (for a period exceeding one year from December 31, 2008):

a. The contractual leasing fees for the upcoming years:

	Interested parties (2)	Others (1)	Total
	US$ millions	US$ millions	US$ millions
2009	123	299	422
2010	120	216	336
2011	143	205	348
2012	124	182	306
2013	112	159	271
2014 and thereafter	542	569	1,111
	1,164	1,630	2,974

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

C. Commitments (cont'd)

3. ZIM (cont'd)

a. The contractual leasing fees for the upcoming years: (cont'd)

1) Includes undertakings for the lease of 6 container ships having a capacity of 4,250 containers each. Three ships were delivered to the Company during 2008 and the balance are expected to be delivered during 2009.

2) ZIM signed agreements, with interested parties, for the acquisition of 12 container ships – eight container ships having a capacity of 4,250 containers each, of which three were delivered to ZIM during 2006, five were delivered by ZIM in 2007 (hereinafter – "the Eight Ships"), and four container ships having a capacity of 6,350 containers each, two of which were delivered in 2008 and the others are scheduled to be delivered to ZIM during 2009 (hereinafter – "the Four Ships"). Out of the Eight Ships, ZIM will acquire two ships for $54.5 million each, will lease two ships for ten years, at a lease rental fee of $23,000 per day, and will acquire four ships in a joint transaction (in equal shares) between ZIM and Ofer Shipping Ltd. (an interested party in ZIM), for $54.5 million each, which will be leased to ZIM in exchange for a lease rental fee of $23,000 per day. Out of the Four Ships, ZIM will acquire two ships for $74.3 million each, and will lease two ships for ten years, at a lease rental fee of $31,500 per day from Ofer Shipping Ltd.

During 2006, the Four Ships were leased to a third party for a period of five years from the date of delivery of the ships to ZIM following their construction. In August 2007, ZIM entered into an agreement to sell two ships of the Four Ships it owns, including the existing sublease agreement. In the period of the report, one of the two ships was delivered. ZIM received $111 million. A capital gain of $33 million from the sale was recorded ($25 million after tax) in the statement of income for the period.

Subsequent to the balance sheet date, the second ship was received and was sold for a consideration of about $112 million. The capital gain amounted to about $33 million.

The total acquisition cost of the ships amounts is $367 million. The balance of the unpaid acquisition cost as at December 31, 2008 amounts to $52 million.

The annual proceeds from the two remaining two leased vessels in a full lease year totals $27 million. The annual pre-tax income for a full lease year of all the ships held for lease is expected to amount to $4 million.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

C. Commitments (cont'd)

3. ZIM (cont'd)

a. The contractual leasing fees for the upcoming years: (cont'd)

3) In July 2007, ZIM entered into an undertaking with a Taiwan shipyard, signed construction contracts and acquired 6 container ships having a capacity of 1,700 TEUs each at a price of about $37 million per ship. The ships are scheduled to be delivered during the years 2010–2011. In October 2007, the details of the joint cooperation in connection with the said acquisition were agreed to between ZIM and a related party Ofer (Ships Holdings) Ltd., Ofer Shipping Ltd. and companies they control (hereinafter – "Ofer Shipping"), as detailed below:

– ZIM will transfer to Ofer Shipping (an interested party in Israel Corporation), by means of a renewal (novation) of the construction contracts, its rights and obligations under the agreement between it and the Taiwan shipyard in connection with the Six Ships, on "back-to-back" terms, such that upon signing of the novation contracts Ofer Shipping will repay to ZIM the payments made to the shipyard on account of the purchase price of the Six Ships plus interest at the annual rate of 12% and ZIM will be released from its guarantees and liabilities to the shipyard in all that related to the Six Ships.

– Concurrently with that stated above, ZIM will enter into a lease agreement with Ofer Shipping, wherein the Six Ships will be leased for a period of 12 years at a price of $17,500 per day per ship. The lease fees for the ships, as stated, will include fees for their management and operation (including, crews, maintenance, sustenance, provisions, insurance, oils, repairs, administration, etc.).

– At the end of the lease period, ZIM will have the option to acquire 50% of each of the said ships for a consideration of $15 million per ship. Exercise of the aforesaid option is subject to law.

4) In May 2008, ZIM signed agreements for leasing of two ships having a capacity of 4,860 TEUs each from a third party (unrelated). The ships were leased by ZIM for a period of 7 years at a daily lease fee of $32,588 per ship. Subsequent to the balance sheet date, in January 2009, one of the two ships was delivered.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

C. Commitments (cont'd)

3. ZIM (cont'd)

b. The commitments in respect of acquisitions and equipping of ships (for a period in excess of one year from December 31, 2008):

Agreement year	2006	2006	2007	2007	2007	2007
Number of ships	4	5	3	2	9	2
Size of ships	8,200	10,000	10,000	2,450	12,600	4,250
Acquisition amount (in $ millions)	121.9	134.4	133.2	47.6	170.9	73
Expected delivery date	2009	2009/10	2010	2010	2012	2010
Comment				(1)		(2)

As at December 31, 2008, unpaid balances in respect of acquisition of the ships amounts to about $2,724 million, to be paid as follows:

	$ millions
2009	867
2010	678
2011	325
2012	854
	2,724

1. In 2007, ZIM entered into an undertaking for the acquisition of 2 container ships having a capacity of 2,450 TEUs each. The price of each ship is $47.4 million and is denominated in Japanese yens. The ships are scheduled for delivery to ZIM in 2010. As at December 31, 2008, the amount not yet paid is to $85 million.

   In 2008, ZIM signed an agreement with a third party (unrelated) for sale of one ship having a capacity of 2,450 TEUs (which was acquired by ZIM in July 2007) at the price as it is denominated in the acquisition contract in Japanese yens (back-to-back) and a re-lease thereof for a period of 15 years. ZIM has an option to acquire the ship at the end of the period, for a price of $13.5 million or, alternatively, to extend the lease period by an additional 5 years, at the conclusion of which it will acquire the ship for a price of $1. In the first 15 years, the lease payments will amount to $13,400 per day. In the following 5 years the lease payments will amount to $9,500 per day.

2. In October–November 2007, ZIM entered into an agreement with an unrelated third party (hereinafter – "the Seller") for acquisition of 2 container ships having a capacity of 4,250 TEUs each (hereinafter – "the Two Ships") for a price of about $73 million each. The ships are expected to be delivered in 2010. The transaction is to be completed by means of a sale of the rights to ZIM from the Seller.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

C. Commitments (cont'd)

3. ZIM (cont'd)

b. (cont'd)

2. (cont'd)

During October details of the joint cooperation were agreed to between ZIM and Ofer Shipping Ltd. in connection with the said acquisition, as detailed below:

– ZIM will sell the Two Ships to Ofer Shipping during the course of their construction or upon the receipt thereof from the shipyard, at a contract price of about $73 million per ship ("back-to-back").

– Since regarding the said transaction ZIM will remain liable to the Seller up to the earlier of the sale to Ofer Shipping or the delivery of each ship, and since the Seller will have a performance guarantee of ZIM for execution of all the liabilities under the acquisition agreement, Ofer (Ship Holdings) Ltd. will provide ZIM a guarantee identical ("back-to-back") to the guarantee provided by ZIM in connection with acquisition of the ships as stated.

  In addition, Ofer (Ship Holdings) Ltd. will be responsible to execute every payment that ZIM bears in connection with construction of the Two Ships, and will be responsible for every expense imposed on ZIM in connection with construction of the Two Ships, within 7 days of the date on which a notification in respect thereof is received from ZIM.

– Concurrent with that stated above, ZIM will enter into a leasing transaction with Ofer Shipping, whereby it will lease the Two Ships for a period of 12 years. During the first 6 years, the daily lease rentals will be $28,200 per day per ship (the same lease rentals to be paid to the third party in connection with a similar period and similar ships, as noted above). During the second 6 years, the daily lease rentals will be $30,200 per day per ship. The said lease rentals will include management and operation fees (including, crews, maintenance, sustenance, provisions, insurance, oils, repairs, administration, etc.).

– At the end of the lease period, ZIM will acquire 50% of each of the said ships in exchange for a total price of about $20 million per ship.

In addition, ZIM entered into a lease agreement for a period of 7–8 years with the seller, whereby ZIM will lease from the seller two 2 additional container ships having a capacity of TEU 4,250 each for a lease rental of $28,200 per day per ship.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

C. Commitments (cont'd)

3. ZIM (cont'd)

b. (cont'd)

2. (cont'd)

During February 2008, the Audit Committees and Boards of Directors of ZIM and Israel Corporation Ltd. approved extension of the lease period, on market terms, for periods not in excess of 5 years, with respect to the ships leased to ZIM by companies owned by interested parties in the Corporation, where the last lease period does not exceed 5 years.

c. The Company is holding negotiations with the shipyards with which it has ship building agreements. The objective of the Company in these negotiations is to cancel the acquisition of some of the ships that were ordered or to postpone the delivery date of some of them, as well as to spread part of the payments for acquisition of the ships by providing to the Company certain amounts of credit.

d. In November 2006, ZIM entered into an agreement for establishment of a joint venture in China whose main activity will be construction and operation of 18 cargo terminals. Pursuant to the agreement, ZIM's share in the share capital of the joint venture will be 8%, the cost of the capital investment will be about $44 million and will be made in three payments up to the end of 2008. Up to the end of 2008, about $31.3 million has been paid.

The main shareholder in the joint venture is a Chinese government company that is engaged in railroad container transport. The other shareholders are strategic investors who are mainly engaged in the shipping, railroad and infrastructures areas.

e. On November 26, 2008, the Corporation reported that, in principle, it is prepared to invest $150 million in ZIM, during 2009, if and to the extent the circumstances require such an investment based on the Corporation's discretion. The Corporation's readiness, in principle is, among other things, against the background of the conditions of the shipping market and the international credit market, and their impact on ZIM.

f. Subsequent to balance sheet date the Company requested to terminate the lease agreement of the ship "Car Star 1", which is leased from an interested party until April 13, 2011. The parties agreed as follows:

The present lease agreement will be terminated at the end of the current voyage. The period between the actual return date of the ship (hereinafter – "the Return Date") and the return date based on the original agreement (April 13, 2011) will be considered the balance of the lease period (hereinafter – "the Balance of the Lease Period").

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

C. Commitments (cont'd)

3. ZIM (cont'd)

f. (cont'd)

ZIM reserves the right, during 9 months from the Return Date, to notify the interested party by means of an advance notice of 3 months (hereinafter – "the Notice Period") of its interest in leasing a car ship from the interested party (or any of its subsidiaries) a that has characteristics similar to those of "Car Star 1" for a period equal to the Balance of the Lease Period and for the lease payments specified in the original agreement ($20,000 per day) and the interested party will make significant efforts to buy or lease a ship as stated for purposes of its lease to ZIM on these conditions.

If at the end of the option period and the Notice Period ZIM has not exercised its right, ZIM will pay the interested party (or its subsidiary) the lease payments less the operating cost component of the ship, in the amount of $5,750 per day, throughout the Balance of the Lease Period (hereinafter – "the Compensation"). The Compensation, in the amount of $14,250 per day during the Balance of the Lease Period is to be paid in 24 equal monthly payments beginning from the end of the option period.

If ZIM exercises its option, however the interested party did not succeed in buying or leasing a substitute ship up to the end of the Notice Period, the foreign company will give notice of the estimate purchase or lease date as stated, and if ZIM is interested in waiting up to this date, execution of the lease arrangement will be delayed up to the date the substitute ship is received.

If during the above-mentioned deferral period the foreign company gives notice that it is unable to buy or lease a substitute ship, or if ZIM decides it is not interested in waiting until such a substitute ship is located and transferred to it, payment of the Compensation will begin from notification date of the inability as stated, however, in any case, not before the passage of 12 months from the Return Date.

4. ORL

a. On January 24, 2007, the State and ORL entered into a new assets' agreement arranging the disputes that existed between the parties regarding the rights in ORL's assets (hereinafter – "ORL's Assets").

Pursuant to the new agreement, ORL's rights in its assets are as follows:

Rights in assets that are not real estate assets – ORL has the rights in each and every one of its assets that are not real estate assets that it would have had if not for the State's position in the dispute.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

C. Commitments (cont'd)

4. ORL (cont'd)

a. (cont'd)

Rights in ORL's real estate assets

The State's rights – the real estate is owned by the State and ORL has a right to lease it for generations (hereinafter – "the Lease Agreement"). The period of the lease is 49 years commencing from the signing date (January 24, 2007), where ORL was given the right to extend the said period for an additional 49 years (hereinafter – "the Option Period"), subject to compliance with all its obligations under the Lease Agreement and the new assets' agreement. At the end of the lease period, including the Option Period, if exercised, ORL will transfer to the State the possessory interest in each of the leased real estate assets, including all that constructed thereon or permanently affixed thereto. As at the publication date of the financial statements, a separate lease agreement had not yet been signed. With respect to each of ORL's real estate properties not included in Section a. above – ORL shall have the rights in respect thereof that it would have had if not for the State's position in the dispute.

Pursuant to the agreement, ORL pays the Government annual payments in a fixed amount of $2.25 million and additional annual amounts, contingent on ORL's annual income, not in excess of $8.7 million (linked to the base index). Pursuant to the assets' agreement, ORL has begun paying authorization fees. The new assets' agreement defines the lease purposes for the real estate and includes provisions regarding transfer of ORL's rights in the real estate. Every change in designation or use of the leased real estate will be subject to, among other things, an advance payment that ORL is to transfer to the State, at the rate of 31% of the value of the asset as a result of the change in designation or use (hereinafter – "the Payment for Increase in Value").

In addition, provisions were included for a case of a violation of ORL's obligation in respect of certain real estate assets.

Refining pipeline

On the signing date, ORL will return to the State all its rights in the refining pipeline running from the refinery in Haifa to the fuel port in Haifa, including every right ORL had, prior to the signing date, in the land on which the pipeline system is located, as stated. In the period from the signing date up to February 28, 2010 (hereinafter – "the Interim Period"), provisions were included regarding the manner of operation and use of the refining pipeline, as they will be from time to time (hereinafter – "the Operation Right"). No later than February 28, 2010, ORL will transfer to the State the possessory interest in the refining pipeline in addition to certain conditions. The new assets' agreement finally concludes all the contentions and claims of the State and ORL against each other in connection with the dispute.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

C. Commitments (cont'd)

4. ORL (cont'd)

a. (cont'd)

Refining pipeline (cont'd)

The new assets' agreement prevails over any other agreement signed between the parties relating to ORL's Assets, and in the case of any contradiction or inconsistency, the contradictory provisions in the other agreement will be void. In any case of a contradiction and/or inconsistency between the provisions of the new assets' agreement and the decisions of the Israel Lands Council and/or polices of the Israel Lands Administration and/or the customary language of a lease contract of the Israel Lands Administration with respect to other lessees in the municipal sector, the provisions of the new assets' agreement shall prevail.

b. The municipal regime applicable to the area of the plants

On March 28, 2005, the Minister of the Interior adopted the committee's decision and decided to annex the Area of the Plants to the Municipality of the City of Haifa. In a hearing held by the High Court of Justice against this decision on October 26, 2005, it was decided that the parties shall conduct negotiations in order to reach an arrangement for all the matters in dispute, and ORL and Gadiv committed that if, ultimately, their appeal is rejected, they will pay municipal tax or substitute municipal tax starting from October 24, 2005. On December 29, 2005, an announcement was published in the official lists of a change in the boundaries of the City of Haifa such that it will include the Area of the Plants, including ORL's real estate, in the area of the City of Haifa. On August 23, 2006, ORL and Gadiv entered into an agreement with the City of Haifa, the City of Kiryat Atta, the City of Nesher, the Local Council of Zevulun, which was intended to arrange the municipal regime applicable to the Area of the Plants (hereinafter – "the Authorities Agreement"). The Authorities Agreement provides that a municipal company will be set up (hereinafter – "the Municipal Company"), the shares of which will be held by the Authorities and ORL. The purpose of the Municipal Company is to manage the matters relating to the Area of the Plants, including determination of rules, planning, development and performance of municipal services on the Area of the Plants. Haifa Chemicals Ltd. and COL announced their joining in the Agreement. The Agreement includes additional provisions relating to, among other things, the handling of a request for a business license, application of auxiliary laws to the Area of the Plants, joint activity between the parties and other provisions.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

C. Commitments (cont'd)

4. ORL (cont'd)

b. The municipal regime applicable to the area of the plants (cont'd)

After the period of the report, the Minister of the Interior decided to adopt the recommendations of the planning institutions and to instruct establishment of a joint committee that will have the authorities of a local council and that will be composed of representatives of the local authorities and representatives of the Government ministries.

ORL and Gadiv agreed, upon fulfillment of the conditions stipulated in the agreement, to bring the agreement to the attention of the court and to withdraw their petitions, and they are expected to do so after establishment of the joint company and the joint committee for planning and building. Up to the end of the concession period, ORL did not receive building permits with respect to construction of most of the Area of the Plants. In 2004, ORL and additional plants located on the Area of the Plants submitted a detailed plan for the area to the District Committee for Planning and Construction of the Haifa District. As at the date of the report, the plan had been discussed by the District Committee and in the period of the report the District Committee decided to deposit the plan, pursuant to the conditions provided in the decision. Until a detailed plan is approved for the Area of the Plants it will not be possible to obtain building permits for the buildings constructed prior to the end of the concession period. Commencing from the end of the concession period, ORL requests and obtains building permits for all new construction in its yard.

c. Agreements with ORL Ashdod for transfer of intermediate materials

On March 9, 2006, the signing date of the split-up agreement, ORL signed an agreement for transfer of intermediate materials with ORL Ashdod (hereinafter – "the Intermediate Materials Agreement"), in the framework of which the terms of the undertaking between the parties were arranged.

The maximum liability of any party to the agreement for any damage or loss stemming from this agreement may not exceed the consideration that was supposed to have been received or that was received in the sale month of the Intermediate Material in respect of which the damage or loss was caused. Each of the parties to the agreement undertook to maintain during the agreement period with liability insurance to the public and product liability insurance in an amount of not less than fifty million dollars.

The agreement covering the Intermediate Materials was signed for a period twelve months from the effective date, where the parties have the possibility of extending it for additional periods of one year each with mutual consent based on a mechanism provided in the agreement. As at the date of the report, the agreement was extended up to September 30, 2009.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

C. Commitments (cont'd)

4. ORL (cont'd)

c. Agreements with ORL Ashdod for transfer of intermediate materials (cont'd)

On March 8, 2006, the Restrictive Business Practices Authority announced that the Intermediate Materials agreement is not a restrictive agreement and does not require the filing of a request for exemption with the Supervisor.

d. Agreements with employees

Collective bargaining agreements have been signed between ORL and its employees that entered into effect on the closing date of the sale of ORL Ashdod. In this framework, a collective bargaining agreement was signed for the years 2006–2010, an agreement for transfer of employees from ORL to ORL Ashdod, and early retirement agreement, and an agreement covering provision of a loan to the Haifa Early Retirement Company Ltd, which was intended to assure compliance with ORL's obligations under the early retirement agreement. In November 2008, ORL and its employees signed an amendment to the collective agreement, extending the period in which ORL's employees will be eligible for early retirement and extended the security net to additional employees who were employed by ORL at the time of privatization, and who were included in the list of names attached to the agreements. In addition, it was agreed that ORL may provide other collateral as an alternative to the loan extended to Haifa Early Retirement Company Ltd., in accordance with the principles determined in the memorandum of understanding signed by the parties.

e. Carmel Olefins' undertaking with a major customer was discontinued due to its entry into liquidation and receivership proceedings.

f. In the framework of an agreement signed between the State, ORL and foreign investment banks (hereinafter – "the International Distributors") for purposes of a private tender offer of ORL's shares held by the State, ORL committed to indemnify the International Distributors and additional service providers in respect of amounts they will be required to pay to third parties in respect of services provided in connection with the tender offer, in their proportionate amounts up to the total amount received from the sale of ORL's shares through them.

g. For purposes of conducting its operations, ORL is dependent on receiving services from the infrastructure companies, Fuel and Energy Ltd. and Eilat Ashkelon Fuel Pipeline Ltd., which own the essential infrastructures for unloading, transporting, storing and issuing crude oil and fuel products. In August 2009, Fuel and Energy Infrastructures Ltd. is expected to perform maintenance work on the marine line that is used to unload crude oil from the Haifa Bay.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

D. Concessions

1. Dead Sea Works Ltd.

According to the Dead Sea Concession Law, 1961 (hereinafter – "the Concession Law") as amended in 1986, Dead Sea Works Ltd. (hereinafter – "DSW") was granted a concession to exploit the resources of the Dead Sea and to lease the land necessary for its plants for a period ending March 31, 2030, with a right of first refusal for the period after expiration of the concession. In return, DSW pays royalties to the Government of Israel, calculated at the rate of 5% of the value of the products at the factory gate, less certain expenses as well as lease fees in respect of the land.

Starting from 2010, the Government can demand a reconsideration of the amount of royalties, in respect of the amount in excess of 3 million tons of chloride potash produced in any year, from the year mentioned and thereafter, provided the amount of the royalties on such excess will not exceed, in any case, 10% of the value of the chloride potash at the factory gate less certain expenses.

By virtue of the Concessions Law and the Concession Certificate, DSW provided a sub-concession to the Dead Sea Bromine Group for production of bromine and bromine compounds from the Dead Sea, the expiration date of which is also in 2030.

Dead Sea Magnesium Ltd. operates under a sublease from DSW and is obliged to pay royalties to the Government of Israel on the basis of raw material (carnallite) used in the production of metallic magnesium. The Government is allowed to reexamine the formula for calculating the royalties in respect of the magnesium.

The total amount of royalties paid to the Government in 2008 and 2007 amounted to $41 million and $20 million, respectively.

In recent years, examinations have been made on behalf of the Ministry of Industry, Trade and Labor in connection with the payment of royalties. ICL has not received a copy of the findings of the said examinations. The Accountant General in the Ministry of Finance contends, apparently, based on the examinations as alleged, that DSW underpaid royalties, allegedly amounting to "hundreds of millions of shekels".

The obligation to pay royalties is pursuant to the concession, which DSW received from the Government and in the secondary concession given by DSW to the Bromine Company, with Government approval. DSW, based, among other things, on a legal opinion, believes that the royalties paid were calculated as required by the above-mentioned concessions based on a calculation method that has been applied consistently for many years, even at the time it was wholly owned by the State, which was known to the State and regarding which there was no contest (prior to receipt of the aforesaid letters from the Accountant General) as to the proper calculation or payment of the royalties. It should be noted that payment of the royalties was examined many times in the past by the State, including by the State Controller. Therefore, DSW believes that there is no basis for the demands and claims of the Accountant General and, accordingly, pursuant to that stated above, no provision has been recorded in the financial statements.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

D. Concessions (cont'd)

1. Dead Sea Works Ltd. (cont'd)

DSW is attempting to settle the matter by agreement with the State. If an agreement is not reached, the matter will be transferred to arbitration, all in accordance with the concession indenture.

2. Rotem Amfert Negev Ltd.

Rotem Amfert Negev Ltd. (hereinafter – "Rotem") has mined phosphates in Israel's Southern region for more than 50 years. The mining is performed under concessions for mining phosphates that were granted from time to time by the State pursuant to the Mining Ordinance. In June 2002, Rotem received three concessions for Rotem Field (valid up to the end of 2021), Zafir Field (valid up to the end of 2021) and Effa Field (valid up to the end of 2013). In respect of mining of the phosphate, Rotem is required to pay the State royalties based on the calculation formula provided in the Mining Ordinance.

The validity of the concessions received by Rotem was conditioned on signing mining authorization agreements (hereinafter – "the Authorizations") between Rotem and the Administration for the concession sites. Rotem signed a final and agreed-to version of the Authorizations and, in September 2003, it paid the Administration usage fees, based on its demand and in accordance with the terms of the Authorizations. The Administration has not yet returned the Authorizations signed by it, however it is acting in accordance with them and Rotem believes, based on the opinion of its legal advisors, that the Administration is bound by them.

Regarding the phosphate field "Hatrurim", Rotem has a mining license from the Supervisor of Mines up to the end of March 2009, this being after the Administration delayed issuance of a long-term mining authorization. Rotem is making efforts to renew the mining license. If a mining license is not granted after the said date there will be no significant adverse impact on ICL's results.

Mining and quarrying activities require zoning approval for the area within the framework of a plan pursuant to the Planning and Building Law, 1965. Such plans are updated, as needed, from time to time. As at the date of the report, various requests are in different stages of hearings before the Planning Board. A request submitted by Rotem for extension of the performance stages beyond 2005, in connection with a site plan from 1991 that zones the Zafir area (Zin-Orone) for mining and quarrying, was approved for the most part, and the performance stages were extended by four years up to 2009. At the same time, Rotem was requested to prepare a new site plan along with detailed plans with respect to part of the mining fields.

In 2008 and 2007, Rotem paid royalties of $0.6 million and $0.5 million, respectively, to the State of Israel.

3. Regarding mining rights of a subsidiary in Spain – see Note 16.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

D. Concessions (cont'd)

4. The mining rights of CPL are based on about 113 mining leases and licenses for production of various minerals, plus a large number of priority rights and rights of way from private owners of the lands under which CPL operates or in connection with mining under the North Sea – from the British Crown. All the lease periods, license periods, priorities and rights of way are valid up to 2015 – 2038.

5. **ORL**

ORL operated in accordance with a concession it received to build, operate and maintain facilities and auxiliary plants for purposes of refining mineral oils. The concession received force under law based on the Anglo-Iranian Oil Treaty Ordinance from 1938. The original period of the concession ended in October 2003. On December 2, 2002, an agreement was signed between ORL, the Government and the Company in all that relating to the period after the end of the concession (hereinafter – "the Original Agreement"), which arranges the relationships between the parties for the period set forth therein (25 years commencing from October 18, 2003 and ORL was granted an option to extend the aforesaid period for an additional 25 years).

On January 24, 2007, the State and ORL entered into a new assets' agreement, which arranges the disputes between the parties with respect to the rights in ORL's assets. Pursuant to the agreement, ORL undertook to pay the State annual payments.

6. **Inkia**

A wholly owned subsidiary of Inkia – the Bolivian Electric Company Ltd. operates pursuant to a 40-year concession agreement from the Government of Bolivia for production of electricity. The agreement is from 1990 up to 2030. The Bolivian Electric Company Ltd. is seeking to replace the concession agreement with a license. The Bolivian Electric Company Ltd. expects that a positive response will be received in the near future from the Government of Bolivia.

During 2008, the President of Bolivia and the recently-appointed Minister of Energy notified the press that the Government of Bolivia is considering nationalizing the energy sector, which is aimed specifically at previously government-owned companies that were taken private. As at the date of this report, the Government of Bolivia has not taken or threatened to take any specific action against the Bolivian Power Company Ltd., which is owned by Inkia.

E. Liabilities secured by liens

1. **The Corporation and the wholly owned and controlled companies of the Corporation (100%) (hereinafter – "the headquarters companies")**

   a. As security for loans in the amount of about $704 million, the Corporation placed liens on shares of ICL at the rate of 19.4% of ICL's share capital.

   b. As security for loans in the amount of about $172 million, the Corporation placed liens on shares of ICL at the rate of 7.2% of ICL's share capital.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

E. Liabilities secured by liens (cont'd)

1. The Corporation and the wholly owned and controlled companies of the Corporation (100%) (hereinafter – "the headquarters companies") (cont'd)

c. In the framework of loan agreements and in accordance with that defined therein, there are various commitments and obligations to maintain certain financial ratios, including:

– The Corporation's minimum shareholders' equity in the consolidated financial statements will not drop below $300 million.
– The ratio of the liabilities plus 50% of the guarantees shall not exceed 60% of the assets.
– A minimum ratio between the value of the collaterals and the balance of the credit. The value of the collaterals for purposes of the loan agreements is derived from their stock-market value.
– Continued control over the company by the present controlling interests.
– Continued control by the Corporation of its investee companies.

As at December 31, 2008, the Corporation is in compliance with these financial covenants.

2. ICL

a. Some of the companies in the ICL Group undertook towards certain Israeli and foreign banks in respect of loans and other credit received from them not to create pledges (a "negative pledge"). Pursuant to the negative pledge, the above-mentioned companies are required not to place liens on their assets. Lenders are entitled to request the advance repayment of their loans if the State of Israel no longer holds the special state shares it was issued by ICL and certain of its subsidiaries.

In respect of loans and credit received by ICL from foreign banks as stated above, ICL undertook various commitments which include, inter alia, a commitment toward the lenders to limit the guarantees and letters of indemnity it gives to third parties to a specified amount (except guarantees specified in agreements with banks). ICL also undertook to grant loans only to subsidiaries and affiliates in which it holds at least 25% of the voting rights, that will not exceed an amount specified in the agreement with the banks. In addition, ICL undertook not to grant any credit, with the exclusion of regular business credit, and to not create any pledges including the granting of rights to liens on its present and future assets and income, except for pledges that were defined in the agreement as "allowable pledges".

ICL also undertook to hold 67%–70% of the control of its main investees (Bromine, DSW and Rotem).

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

E. Liabilities secured by liens (cont'd)

2. ICL (cont'd)

b. Restrictions on the ICL Group with respect to receipt of credit:

In connection with some of the loans received from banks, ICL committed to maintain certain financial ratios, as follows:

– The ratio of the net debt to shareholders' equity will not exceed 2.1.
– The ratio of the net debt to EBITDA will not exceed 4.5.
– The ratio of the EBITDA to net interest expenses will be at least 3.5.
– ICL's shareholders' equity will not drop below $700 million plus 25% of the net income for 2005 and the upcoming years on a cumulative basis.
– The total financial liabilities of ICL's subsidiaries are limited to 10% of the total assets in ICL's consolidated financial statement (in certain cases loans to subsidiaries are not included in the said restriction).

ICL is in compliance with these financial statements ratios.

c. To secure fulfillment of the conditions attached to receipt of investment grants from the State of Israel received by some of ICL's subsidiaries, floating charges were registered in favor of the State of Israel. If the companies do not comply with the conditions with respect to receipt of the grants, they will be required to repay the grant amounts, in whole or in part, plus interest from the date of their receipt. In ICL's estimation, based on the assessment of the companies, the investee companies are in compliance with the terms provided, as stated.

3. ZIM

a. In order to secure part of the short-term credit from banks and other long-term loans and liabilities taken out for purposes of, among other things, financing acquisition of ships, and in order to secure bank guarantees, liens have been placed on the fleet of ships and related equipment, including revenues deriving from the ships and the insurance rights covering the ships and the containers, land, buildings, equipment and computers.

b. Some of the loans received by ZIM from banks and others, the balance of which as at December 31, 2008 is $1,171 million include a number of restrictions, among others, a requirement to comply with the following financial covenants:

1) The tangible shareholders' equity shall not drop below a defined rate of the total assets (between 11% and 18% depending on the specific loan). Tangible shareholders' equity is defined as shareholders' equity including paid-up share capital, undistributed retained earnings, reserves and the total provisions for deferred taxes, less deferred expenses and intangible assets (with one lender – plans for declines in value), and guarantees issued by ZIM as collateral for indebtedness of interested parties.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

E. Liabilities secured by liens (cont'd)

3. ZIM (cont'd)

b. (cont'd)

2) The ratio of EBITDA to debt service shall not drop below 1.0. Debt service is defined as the amount of financing expenses, current maturities of long-term loans and short-term credit from banks and others, less cash and cash equivalents and short-term deposits.

In computing this ratio, current liabilities less cash, cash equivalents and short-term deposits shall not be less than zero.

It was agreed with some of the lenders that if the cash, cash equivalents and short-term deposits exceed the current maturities and financing expenses, ZIM will be in compliance with the financial covenants.

3) The ratio of shareholders' equity to total assets shall not fall below a rate of 11%.

4) The ratio of shareholders' equity less intangible assets to the total assets less intangible assets shall not fall below a rate of 10%.

5) The ratio of operating cash flows to net financing expenses shall not fall below a rate of 1.2.

6) The ratio of operating earnings to net financing expenses shall not fall below a rate of 1.2.

7) The ratio of short-term and long-term loans from banks and others (including current maturities) to shareholders' equity plus deferred taxes shall not exceed 4.5.

8) The ratio of current operating earnings less operating expenses and general and administrative expenses (less depreciation, administrative and general expenses) to net financing expenses together with current maturities of long-term loans from banks and others and less cash and cash equivalents, shall not fall below 1.0.

9) The ratio of EBITDA to debt service shall not fall below 1.0. EBITDA is defined as income from operations less operating, general and administrative expenses, excluding the provision for employee severance pay and depreciation (as reflected in the cash flow statement). The debt service is considered as interest expense, excluding amortization of the discount in respect of loans having subsidized interest, and excluding losses on financial transactions and exchange rate differences, with the addition of current maturities of long-term loans from banks and others.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

E. Liabilities secured by liens (cont'd)

3. ZIM (cont'd)

b. (cont'd)

10) In some of the agreements, the possibility exists to reduce the credit if there is change in control, should this not be acceptable to the bank.

11) In addition, there is an agreement permitting the bank to demand repayment if the direct or indirect ownership of an interested party drops below 51%.

12) In some of the agreements, if the market value of a ship drops below a certain percentage of the loan balance (between 110% and 120%, depending on the specific loan), the bank is entitled to demand immediate repayment of the proportionate amount of the loan in order to maintain the ratios referred to.

As at December 31, 2008, the lenders, to which ZIM's debts amounted to about $326 million, agreed to amend the loan agreements and, as a result, the financial covenants will be examined for the first time at the signing date of ZIM's financial statements as at March 31, 2009.

As at December 31, 2008, ZIM was in compliance with some of its financial covenants as amended in the agreements with the lending banks. Loans in the amount of about $108 million, regarding which ZIM was not in compliance with the financial covenants, were reclassified to current liabilities.

c. As at December 31, 2008, ZIM received a waiver of its compliance with financial covenants in connection with debts in the amount of about $710 million.

ZIM is carrying on negotiations with providers of credit in connection with the debts referred to Section B, above, in order to agree to new financial covenants that will apply to the said debts. If an agreement is not reached between the parties and/or the credit providers do not agree to amend the date for compliance with the financial covenants, the relevant debts will become repayable on demand commencing from the second quarter of 2009. In the estimation of ZIM's management, based on the negotiations with the representatives of the credit providers, a new agreement will be reached and ZIM will comply with the financial covenants determined therein.

4. ORL

a. In order to secure credit ORL received from lenders, commitments have been given not to create additional liens ("a negative covenant"). The loan agreements with the lenders include conditions that permit the lenders to demand immediate repayment of the balance of the loans. Set forth below are, among others, the main cases in which the lenders are permitted (themselves or through their representatives) to utilize this right:

1) If ORL's extended shareholders' equity drops below NIS 1,700,000,000.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

E. Liabilities secured by liens (cont'd)

4. ORL (cont'd)

a. (cont'd)

2) If the ratio between ORL's total long-term liabilities and its current liabilities plus guarantees given to third parties less inventories of crude oil and its related products to its extended shareholders' equity rises above 2:1.

3) If the ratio between ORL's current assets (less maintenance spare parts and chemicals) to its current liabilities falls below 1.

4) If ORL distributes a dividend such that the recording thereof in the last periodic financial statements, prior to distribution of the dividend will cause a violation of any of the financial ratios detailed in the above subsections.

5) ORL also committed not to sell and/or transfer and/or lease to another/others any assets, in an amount exceeding 10% of its fixed assets as they will be at the time of execution of the transaction, if such transaction is not in the ordinary course of ORL's business and is not on regular market terms, without the advance written consent of the banks.

6) If ORL lends to its shareholders amounts that if it had distributed a dividend, the bank would have been entitled to demand early repayment of the loans, so long as it has not paid the bank the payments due to it in respect of the loan, in full, and all of this – without the advance written consent of the banks.

7) The negative pledge signed in favor of the credit providers by ORL will continue to remain in effect.

As at December 31, ORL is in compliance with these ratios.

b. As part of provision of the loans by banks for financing the expansion project, in the amount of $320 million, Carmel Olefins committed not to create any lien whatsoever on its property and its assets so long as there are debts and liabilities in respect of the credit received from them, without receipt of their prior consent. In addition, a number of financial covenants were determined for Carmel Olefins, including compliance with certain financial ratios. In light of adoption of IFRS commencing from the first quarter of 2008, in March 2008 an amendment was agreed to with the banks and with the debenture holders regarding some of the original financial conditions in effect from January 1, 2008.

As at the date of the financial statements, Carmel Olefins is not in compliance with these conditions, and therefore the balance of the loans, in the amount of $117 million, was classified as short-term.

In light of this Carmel Olefins is conducting negotiations with the banks for purposes of reaching an arrangement whereby new financial covenants will be set and/or it will be granted waiver certificates.

Note 22 - Contingent Liabilities, Commitments and Concessions (cont'd)

E. Liabilities secured by liens (cont'd)

4. ORL (cont'd)

b. (cont'd)

Carmel Olefins has not received waiver certificates from any bank in respect of the financial covenants, such that from the date of the financial statements and up to the date of receiving the waiver certificates, if ultimately received, the banks have the right to call the loans for immediate repayment.

As at the signing agreement of these financial statements, no contact has been received by Carmel Olefins from any bank requesting to call the loans it made to Carmel Olefins for immediate repayment.

c. As part of a private issuance of index-linked debentures, in the amount of NIS 850 million, a number of financial conditions were determined for Carmel Olefins, including compliance with certain financial ratios. After registration of the debentures for trading, some of the financial conditions will be cancelled. In light of adoption of IFRS commencing from the first quarter of 2008, in March 2008 an amendment was agreed to with the banks and with the debenture holders regarding some of the original financial conditions in effect from January 1, 2008. In December 2008, the debentures of Carmel Olefins were registered for trading on the stock exchange and, accordingly, some of the financial conditions were cancelled.

As at the date of the financial statements, Carmel Olefins is in compliance with the financial conditions that remained in effect after the registration on the stock exchange.

If any debt of Carmel Olefins of more than NIS 50 million is called for immediate repayment, the debenture holders have grounds for immediate repayment of the debentures. As at the signing date of the financial statements, Carmel Olefins has not received a request from any bank to call the loan it made to Carmel Olefins for immediate repayment.

d. Pursuant to its loan agreements with a bank, Gadiv undertook to comply with certain financial conditions including compliance with certain financial ratios. As at the date of the financial statements, Gadiv is in compliance with these ratios.

e. For purposes of compliance with the conditions relating to receipt of the investment grant, investee companies of ORL recorded floating liens on the assets of the Approved Plan in favor of the State of Israel. If the investee companies are not able to demonstrate compliance with the aforesaid conditions, the Investments Center is permitted to demand from them repayment of the grant amounts received together with interest and linkage differences from the date of their receipt. In addition, they will be required to repay the full amount of the benefits in connection with the tax calculations. In the estimation of ORL's investee companies, they are in compliance with the conditions of the Letters of Approval.

Note 23 - Share-Based Payments

A. <u>In the Corporation</u>

1. On May 15, 2005, the Corporation's Board of Directors decided that the Corporation shall issue to H.L. Management and Consultants (1986) Ltd. a wholly owned subsidiary of the Corporation (hereinafter – "Management and Consultants") 70,300 of the Corporation's shares of NIS 1 par value, which will be used by Management and Consultants in the framework of a new plan it adopted on that date for compensating its employees and officers (hereinafter – "the Plan"). Pursuant to the Plan, Management and Consultants will issue options to employees and officers for acquisition of the Corporation's shares, which will be issued as stated to Management and Consultants. According to the Plan, 70,300 options were issued to employees and officers of Management and Consultants (some of the options were issued to the CEO at that time).

The securities issued to Management and Consultants are ordinary shares of NIS 1 par value of the Corporation. The options being offered to the offerees are not marketable and for each such option the offeree will be entitled to acquire from Management and Consultants one ordinary share of NIS 1 par value of the Corporation subject to the terms of the Plan.

Entitlement to receive options will vest in three increments: one-third on the second business day after advance approval by the Assessing Officer, an additional one-third on December 31, 2005 and the balance on December 31, 2006.

The exercise price of each option is the equivalent of NIS 880 (which is equal to the average stock market price of a Corporation share during the 30 trading days preceding December 31, 2004, less a dividend distributed in the beginning of 2005), plus linkage differences to the CPI beginning from the index for November 2004 and up to the date of exercise.

The options included in the first increment will be exercisable commencing December 31, 2007 and up to December 31, 2009; the options included in the second increment will be exercisable commencing June 30, 2008 and up to June 30, 2010; and the options included in the third increment will be exercisable commencing December 31, 2008 and up to December 31, 2010. In addition, rules were provided for a case of termination of the service or employment of the offerees.

On the exercise date of the options, the offerees will be entitled to that quantity of shares determined based on the value of the benefit.

The economic value of an option computed based on the Black and Scholes formula is NIS 429.21 for the first increment, NIS 443.79 for the second increment and NIS 457.96 for the third increment.

The cost of the benefit embedded in the options included in the third increment granted, as stated, based on the fair value on the date of their grant, amounted to a total of $8.5 million. This amount was recorded in full on the statement of earnings over the vesting period of the third increment.

Note 23 - Share-Based Payments (cont'd)

A. In the Corporation (cont'd)

2. On June 25, 2007, the Corporation's Board of Directors decided with respect to the issuance of 60,000 shares of NIS 1 par value of the Corporation's share capital to H.L. Management and Consulting (1986) Ltd. (hereinafter – "Management and Consulting"), a wholly owned subsidiary of the Corporation, which will be used by Management and Consulting in the framework of a new plan it adopted on that date for compensation of its employees and senior officers (hereinafter – "the Plan"). Pursuant to the Plan, Management and Consulting will issue options to its employees and senior officers for acquisition of the Corporation's shares that were issued, as noted, to Management and Consulting.

The grant conditions are as follows:

Grant date / entitled employees	Number of instruments (in thousands)	Vesting terms	Projecte d life of options (in years)
Grant of options to the CEO in August 2007	20	1–3 years from grant date	3–5
Grant of options to five employees (two officers) in August 2007	23.8	1–3 years from grant date	3–5
Grant of options to officers in October 2007	10	1–3 years from grant date	3–5
Grant of options to two employees (one officer) in October 2008	5.3	1–3 years from grant date	3–5
	59.1		

The exercise price of each option is the equivalent of NIS 3,031 plus linkage differences to the CPI beginning from the index for May 2007 and up to the date of exercise.

The options granted to the offerees are non-marketable options, where pursuant to each such option the offeree will be entitled to acquire from Management and Consulting one of the Corporation's ordinary shares of NIS 1 par value subject to the Plan's conditions. The eligibility of each of the offerees to receive the options granted will vest in three increments: one-third one year after the grant date, one-third two years after the grant date and one-third three years after the grant date.

In addition, rules were provided for a case of termination of the service or employment of the offerees and rules protecting the offerees. On the exercise date of the options, the offerees will be entitled to that quantity of shares determined based on the value of the benefit.

The cost of the benefit embedded in the options granted, as stated, based on their fair value on the date of their grant included in the first, second and third increments amounted to a total of $11 million. These amounts will be recorded on the statement of income over the vesting period of each increment. Accordingly, in 2008 the Corporation included an expense in the amount of about $5 million in respect of the said Plan.

Note 23 - Share-Based Payments (cont'd)

A. In the Corporation (cont'd)

3. Set forth below is the movement in the options during 2007 and 2008:

	2007 plan	2005 plan	Total
Balance as at January 1, 2007	–	70,300	70,300
Granted during 2007	53,800	–	53,800
Balance of options outstanding as at December 31, 2007	53,800	70,300	124,100
Granted during 2008	**5,300**	**–**	**5,300**
Exercised during 2008	**–**	**(61,965)**	**(61,965)**
Balance of options outstanding as at December 31, 2008	**59,100**	**8,335**	**67,435**

The weighted-average of the remaining contractual lives of the options outstanding as at December 31, 2008 and 2007 is 3 years and 4 years, respectively.

4. The fair value of the options granted, as stated above, was estimated using the Black and Scholes model for pricing options. The parameters used in application of the model are as follows:

	2007 plan	2005 plan
Share price (in NIS)	3,004–3,350	1,191
Exercise premium (in NIS)	3,031	880
Expected volatility	23.80%	24.95%
Life of the options (in years)	3–5.5	4.5–5.5
Riskless interest rate	3%	2%

The expected volatility (fluctuations) was determined on the basis of the historic volatility of the Corporation's share price. The life of the options was determined based on management's estimate with respect to the employees' holding period of the options taking into account their positions with the Corporation and the Corporation's past experience regarding employee attrition rates. The riskless interest rate was determined based on the yield to maturity on shekel government bonds having a remaining outstanding term to maturity equal to the expected lives of the options.

5. In 2008, part of the options were exercised for 48,516 ordinary shares of NIS 1 par value.

B. ICL

1) On January 28, 2007, (hereinafter – "the Effective Date"), ICL's Board of Directors approved a plan for a private issuance, for no consideration, of 12.9 million options exercisable for ICL shares, to a group of officers and other senior employees holding management positions with ICL and companies it controls, in and outside of Israel.

Out of the aforementioned plan, during the period of the report 11.8 million options were issued and the balance of the unissued options expired.

Upon exercise, each option may be exercised for one of ICL's ordinary shares of NIS 1 par value. Immediately upon their issuance, the ordinary shares issued as a result of exercise of the options will have all the same rights as ICL's ordinary shares.

Note 23 - Share-Based Payments (cont'd)

B. ICL (cont'd)

1) (cont'd)

The options to be issued to the employees in Israel will be covered by Section 102 of the Income Tax Ordinance (New Version), and the regulations promulgated thereunder. ICL elected that the issuance shall be through a trustee under the "Capital Gains" alternative.

The options will vest in three equal portions as follows: one-third at the end of 12 months from the Effective Date, one-third at the end of 24 months from the Effective Date, and one-third at the end of 36 months from the Effective Date. Each portion will be locked-up for an additional year from its vesting. The expiration date of the options is at the end of 60 months from the Effective Date. In addition, rules have been provided for a case of termination of service or employment of any of the option holders. The exercise price was set at NIS 25.59 per share linked to the Consumer Price Index "known" on the payment date (the base index is the index for December 2006). In the case of distribution of a dividend by ICL, the exercise price will be reduced on the ex-dividend date in the (gross) amount of the dividend per share, based on the amount thereof in NIS on the Effective Date.

Alternatively, and based on ICL's discretion, it may transfer or issue shares at the rate of the difference between the price per share on exercise date and the exercise price. The options are not marketable and may not be transferred.

The weighted-average value of each option on the eve of the Effective Date, computed using the Black and Scholes options-pricing model is NIS 6.43, based on the stock market price of one of ICL's ordinary shares of NIS 1 par value, on the eve of the Effective Date – NIS 25.59.

The cost of the benefit inherent in the options allotted as aforementioned, on the basis of the fair value on the date they were granted, amounted to $17.9 million. This amount will be recorded in the statements of income over the vesting period of each portion. In accordance with the above, in 2008 and 2007 ICL included an expense of about $6 million and about $9 million, respectively, in connection with the aforementioned plans.

Note 23 - Share-Based Payments (cont'd)

B. ICL (cont'd)

2. Set forth below is the movement in the options in 2008 and 2007.

	Number of options 2007 plan
Balance as at January 1, 2007	–
Movement in 2007:	
Grants during the year	11,800,000
Total options outstanding as at December 31, 2007	11,800,000
Movement in 2008:	
Exercised during the year	**(16,666)**
Forfeited during the year	**(18,334)**
Total options outstanding as at December 31, 2008	**11,765,000**
Total options exercisable as at December 31, 2008	**3,866,667**

The fair value of the options granted under the 2007 plan above was estimated using the Black & Scholes model for pricing options. The parameters used in application of the model are as follows:

	2007 plan
Share price (in NIS)	25.59
Exercise premium linked to the CPI (in NIS)	25.59
Expected volatility	24.60%
Life of the options (in years)	4
Risk-free interest rate	3.34%
Economic value (in millions of dollars)	17.9

The expected volatility was determined based on the historical volatility of the price of ICL's shares.

The life of the options was determined based on the estimate of ICL's management of the period the employees will hold the options, taking into consideration their position with the ICL, and the ICL's past experience regarding employee attrition. The risk-free interest rate was determined on the basis of the yield to maturity of shekel-denominated government debentures, with a remaining life equal to the anticipated life of the options.

Note 23 - Share-Based Payments (cont'd)

C. ORL

1) On September 5, 2007, ORL's Board of Directors approved an options' plan including a total of 30,000,000 options under the "Capital Track" (with a trustee pursuant to Section 102 of the Income Tax Ordinance). Up to December 31, 2007, ORL allotted options for acquisition of 26,900,000 ordinary shares of NIS 1 par value each. As at December 31, 2007, 3,100,000 options for acquisition of ordinary shares had not yet been issued.

2) The allotment plan covering the options was recorded in accordance with Section 102 of the Income Tax Ordinance, whereby the options will be deposited with a trustee for a period of at least two years from the allotment date of the options. The recipients of the options will pay the tax deriving from the benefit at the time of sale of the shares.

3) Set forth below is a table summarizing the allotment terms of the options issued by ORL and the data used in determining the fair value of the benefit:

Date of grant	Number of instruments ('000)	Vesting period (years)	Contractual life of the options (years)	Average interest rate	Expected volatility	Exercise premium	Share price used as a basis for pricing the option	Total fair value of the benefit on the issuance date
				%	%	NIS	NIS	NIS '000
9.05.07	9,000	1–3	3–5	3.5	28	3.250	3.156	7,500
11.06.07	10,950	1–3	3–5	3.5	28	3.179	3.197	9,800
12.31.07	6,950	1–3	3–5	3.2	28	3.486	3.700	7,600
	26,900							

The share price was derived from the share price on the stock exchange.

The expected volatility (fluctuations) was determined on the basis of the historic volatility of the share prices of ORL and of companies having an area of activities is similar to that of ORL.

The life of the options was determined based on an estimate of ORL's management with respect to the employees' holding period of the options taking into account their positions and ORL's past experience regarding employee attrition rates.

The risk-free interest rate was determined based on the yield to maturity on shekel government bonds having a remaining outstanding term to maturity equal to the expected lives of the options.

Note 23 - Share-Based Payments (cont'd)

C. ORL (cont'd)

4)

	As at December 31, 2008		As at December 31, 2007	
	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price
	Thousands	NIS	Thousands	NIS
Issued during the period	–	–	26,900	3.28
At end of period	26,900	3.28	26,900	3.28

5) The total salaries expense recognized in the statement of earnings in respect of share-based payment transactions to employees in the second half of 2008 amounts to about $1.4 million.

Note 24 - Share Capital and Reserves

A. Adjustments to the movements in shareholders' equity

	Allocated to the holders of the Corporation's equity rights					Minority interest	Total capital
	Share capital and premium	Translation reserve for foreign currency	Capital reserves	Retained earnings	Total		
	$ millions						
Balance at January 1, 2008	**273**	**51**	**6**	**1,147**	**1,477**	**1,907**	**3,384**
Share-based payments in a subsidiary	**–**	**–**	**–**	**–**	**–**	**11**	**11**
Share-based payments in the Corporation	**–**	**–**	**11**	**–**	**11**	**–**	**11**
Dividend to the holders of the Corporation's equity rights	**–**	**–**	**–**	**(50)**	**(50)**	**–**	**(50)**
Dividend to the minority interest in a subsidiary	**–**	**–**	**–**	**–**	**–**	**(528)**	**(528)**
Minority interest in acquisition of subsidiary	**–**	**–**	**–**	**–**	**–**	**10**	**10**
Acquisition by subsidiary of its own shares	**–**	**–**	**–**	**–**	**–**	**(144)**	**(144)**
Issuance of shares to the minority interest in a subsidiary	**–**	**–**	**–**	**–**	**–**	**7**	**7**
Comprehensive income for the year	**–**	**(41)**	**(53)**	**283**	**189**	**766**	**955**
Balance at December 31, 2008	**273**	**10**	**(36)**	**1,380**	**1,627**	**2,029**	**3,656**
Balance at January 1, 2007	273	–	5	1,022	1,300	816	2,116
Share-based payments in a subsidiary	–	–	–	–	–	9	9
Share-based payments in the Corporation	–	–	2	–	2	–	2
Dividend to the holders of the Corporation's equity rights	–	–	–	(60)	(60)	–	(60)
Tax benefits in respect of issuance of shares to employees in a subsidiary	–	–	–	–	–	2	2
Dividend to the minority interest in a subsidiary	–	–	–	–	–	(299)	(299)
Issuance of shares to the minority interest in a subsidiary	–	–	–	–	–	80	80
Minority interest in acquisition of subsidiary	–	–	–	–	–	991	991
Comprehensive income for the year	–	51	(1)	185	235	308	543
Balance at December 31, 2007	273	51	6	1,147	1,477	1,907	3,384

Note 24 - Share Capital and Reserves (cont'd)

B. Share Capital and Premium

	Ordinary shares	
	2008	**2007**
	Thousands of shares of NIS 1 par value	
Issued and paid-up share capital as at January 1	**7,698**	7,638
Issuance as a result of compensation plan to employees	**–**	60
Issued and paid-up share capital as at December 31 (1)	**7,698**	7,698
Authorized share capital	**160,000**	160,000

Each ordinary share from the Corporation's share capital has the right to dividends, to bonus shares and to distribution of the Corporation's assets upon liquidation, in proportion to the par value of each share, without taking any premium paid in respect thereof, all subject to the Corporation's Articles of Association. Each of the shares entitles its holder to participate in the Corporation's General Meetings and to one vote.

The Corporation's shares are registered for trading on the Tel-Aviv Stock Exchange. On December 31, 2008, the closing price of a share on the Stock Exchange was $225 (December 31, 2007 – $1,055).

In 2008, 123 ordinary shares of NIS 1 par value were issued as a result of conversion of debentures (2007 – 815).

(1) As at the balance sheet date, a wholly owned subsidiary of the Corporation holds 86,750 ordinary shares of NIS 1 par value each of the Corporation, constituting about 1.13% of the Corporation's issued share capital.

C. Translation reserve of foreign operations

The translation reserve includes all the foreign currency differences stemming from translation of financial statements of foreign activities as well as from translation of liabilities defined as investments in foreign activities commencing from January 1, 2007.

D. Capital reserves

Capital reserves include:

The hedge fund, which includes the effective part of the accrued net change in the fair value of instruments defining the cash flows and that relate to hedged transactions not yet realized.

The capital reserve in respect of assets available for sale, which includes the accrued net change in the fair value of financial assets available for sale, up to the time of elimination of the investment or decline in the value of the investment.

A capital reserve including charge of salaries expenses against a corresponding increase in capital in connection with share-based payments to employees.

Note 24 - Share Capital and Reserves (cont'd)

E. Dividends

The following dividends were declared and paid by the Corporation:

	For the Year Ended December 31	
	2008	2007
	$ millions	$ millions
$6.48 per ordinary share (2007 – $7.83)	**50**	60

F. Regarding issuance of options to employees – see Note 23 regarding Share-Based Payments.

Note 25 – Revenues

	For the Year Ended December 31	
	2008	2007
	$ millions	$ millions
Revenues from shipping and shipping-related services	**4,302**	3,786
Revenues from sales of fuel and fuel products	**8,257**	2,855
Revenues from other sales and services	**7,243**	4,269
	19,802	10,910
From associated companies	**167**	52

Note 26 - Cost of Sales

A. Composition

	For the Year Ended December 31	
	2008	2007
	$ millions	$ millions
Payroll and related expenses	**887**	691
Manufacturing, operating expenses and outside contractors	**1,449**	990
Materials and merchandise	**9,357**	3,512
Depreciation and amortization	**443**	287
Expenses related to handling of cargo	**1,541**	1,351
Ship leasing fees	**816**	652
Fuel and oil for ships	**967**	599
Agents' commissions and other	**1,072**	983
	16,532	9,065
To associated companies	**104**	43

Note 26 - Cost of Sales (cont'd)

B. Detail by type of revenue

	For the Year Ended December 31	
	2008	**2007**
	$ millions	**$ millions**
Shipping and shipping-related services	**4,476**	3,623
Sales, refining and services	**8,317**	2,688
Sales and other services	**3,739**	2,754
	16,532	9,065

Note 27 - Research and Development Expenses

	For the Year Ended December 31	
	2008	**2007**
	$ millions	**$ millions**
Raw and auxiliary materials used	**4**	1
Salaries, wages and related expenses	**55**	35
Outside services	**2**	1
Depreciation and amortization	**3**	2
Other	**–**	1
Total R&D expenses	**64**	40
Less participation of the State of Israel in the R&D expenses	**–**	1
	64	39

Note 28 - Selling, Transport and Marketing Expenses

	For the Year Ended December 31	
	2008	**2007**
	$ millions	**$ millions**
Transport and insurance	**591**	437
Payroll and related expenses	**113**	79
Commissions	**32**	23
Advertising	**11**	7
Depreciation and amortization	**5**	4
Other	**33**	50
	785	600

Note 29 - General and Administrative Expenses

	For the Year Ended December 31	
	2008	2007
	$ millions	$ millions
Payroll and related expenses	**263**	229
Bad and doubtful debts	**3**	–
Depreciation and amortization	**77**	28
Other expenses	**193**	119
	536	376

Note 30 - Other Income and Expenses

	For the Year Ended December 31	
	2008	2007
	$ millions	$ millions
Other income		
Gain on sale of property, plant and equipment	**59**	6
Capital gain from issuance to a third party	**25**	13
Other	**47**	34
	131	53
Other expenses		
Decline in value of assets	**60**	17
Provisions and reductions	**55**	–
Miscellaneous expenses	**31**	4
	146	21

Note 31 - Financing and Other Expenses, Net

Recorded on the statement of income

	For the Year Ended December 31	
	2008	**2007**
	$ millions	**$ millions**
Financing income		
Net change in fair value of derivative financial instruments	**(41)**	(74)
Net changes in fair value of loan granted	**(6)**	(1)
Interest income from bank deposits	**(50)**	(44)
Net change in the fair value of financial assets held for trade	**–**	(51)
Other income	**(10)**	–
Financing income recorded on the statement of income	**(107)**	(170)
Financing expense		
Interest expenses to banks and others	**428**	313
Net loss from change in exchange rates	**92**	158
Net change in fair value of financial assets held for trade	**191**	–
Interest expenses in respect of securitization transactions	**18**	19
Loss from decline in value financial assets available for sale	**17**	–
Financing expenses in respect of employee benefits	**15**	21
Change in the fair value of cash flow hedge transferred to the statement of income	**1**	–
Other expenses	**15**	34
Financing expenses	**777**	545
Less – capitalized credit costs	**(37)**	(29)
Financing expenses recorded on the statement of income	**740**	516
Net financing expenses recorded on the statement of income	**633**	346

Note 32 - Taxes on Income

A. Components of the taxes on income (tax benefits)

	For the Year Ended December 31	
	2008	2007
	$ millions	$ millions
Current taxes on income (tax benefits)		
In respect of current period	**279**	161
Adjustments in respect of prior years, net	**(38)**	4
	241	165
Income from deferred taxes		
Creation and reversal of temporary differences (1)	**(219)**	(45)
Total taxes on income	**22**	120
(1) Of which the amount of the benefit deriving from tax losses, tax credits or temporary differences from a prior period not previously recognized and that served to reduce the deferred taxes	**111**	24

B. Taxes on income recognized directly to equity

	For the Year Ended December 31	
	2008	2007
	$ millions	$ millions
Current taxes	**1**	–
Deferred taxes	**26**	1
Total tax recognized directly to equity	**27**	1

Note 32 - Taxes on Income (cont'd)

C. Reconciliation between the theoretical tax on the pre-tax income and the tax expenses

	For the Year Ended December 31	
	2008	**2007**
	$ millions	**$ millions**
Income before taxes on income	**1,192**	493
Statutory tax rate	**27%**	29%
Tax computed at the principal tax rate applicable to the Corporation	**322**	143
Increase (decrease) in tax in respect of:		
Tax benefits deriving from reduction in the tax rate in respect of Approved Enterprise and Benefited Enterprise	**(288)**	(55)
Different tax rates applicable to subsidiaries operating overseas	**10**	(2)
Elimination of tax calculated in respect of the Corporation's share in losses of investee companies accounting for on the equity method	**13**	7
Exempt income	**(2)**	(2)
Income subject to tax at a different tax rate	**1**	(14)
Non-deductible expenses	**11**	6
Additional deduction for tax purposes of subsidiaries overseas	**(12)**	–
Tax in respect of foreign dividend	**7**	–
Differences between the measurement base of income reported for tax purposes and the income reported in the financial statements (dollar)	**(6)**	–
Utilization of losses and benefits from prior years for which deferred taxes were not created	**(69)**	(3)
Change in temporary differences regarding which deferred taxes were not recognized	**–**	3
Tax losses and other tax benefits for the period regarding which deferred taxes were not created	**71**	33
Differences in definitions of capital and assets	**5**	(6)
Taxes in respect of prior years	**(53)**	(3)
Impact of change in tax rate	**9**	1
Other differences	**3**	12
Taxes on income included in the statement of income	**22**	120

Note 32 - Taxes on Income (cont'd)

D. Deferred tax assets and liabilities

1. Deferred tax assets and liabilities recognized

The deferred taxes in respect of companies in Israel are calculated based on the tax rate expected to apply at the time of the reversal as detailed above. Deferred taxes in respect of subsidiaries operating outside of Israel were calculated based on the tax rates relevant for each country.

The deferred tax assets and liabilities are allocated to the following items:

	Property plant and equipment	Employee benefits	Inventory	Carryforward of losses and deductions for tax purposes	Other	Total
	$ millions					
Balance of deferred tax asset (liability) as at January 1, 2007	(602)	108	28	35	(49)	(480)
Changes recorded on the statement of income	(29)	4	26	40	4	(45)
Changes recorded to shareholders' equity	–	1	–	–	–	1
Difference from translation reserves	4	(5)	–	–	(2)	(3)
Business combinations	(324)	–	(12)	7	(9)	(338)
Companies exiting the consolidation	–	(1)	–	(4)	(1)	(6)
Balance of deferred tax asset (liability) as at December 31, 2007	(951)	107	42	78	(57)	(781)
Changes recorded on the statement of income	**4**	**95**	**(2)**	**115**	**7**	**219**
Changes recorded to shareholders' equity	**–**	**22**	**–**	**2**	**2**	**26**
Losses from translation reserves	**2**	**–**	**–**	**–**	**–**	**2**
Business combinations	**(7)**	**(1)**	**–**	**1**	**1**	**(6)**
Balance of deferred tax asset (liability) as at December 31, 2008	**(952)**	**223**	**40**	**196**	**(47)**	**(540)**

2. The deferred taxes are presented in the balance sheets as follows:

	As at December 31	
	2008	2007
	$ millions	$ millions
As part of non-current assets	**82**	33
As part of non-current liabilities	**(622)**	(814)
	(540)	(781)

Note 32 - Taxes on Income (cont'd)

D. Deferred tax assets and liabilities (cont'd)

3. Deferred tax assets and liabilities not recognized

Deferred tax assets and liabilities were not recognized in respect of the following items:

	As at December 31	
	2008	2007
	$ millions	$ millions
Losses for tax purposes	**620**	480

Pursuant to the existing tax laws, there is no time limitation on the utilization of tax losses and on utilization of deductible temporary differences. Deferred tax assets were not exercised in respect of these differences, since it is not expected that there will be taxable income in the future against which it will be possible to utilize the tax benefits.

E. Measurement of results for tax purposes

1. Companies in Israel

a. The Group companies in Israel are taxed under the Income Tax Law (Inflationary Adjustments), 1985. In accordance therewith, the taxable income is measured on a real (inflation-adjusted) basis as measured by the increase in the CPI. The companies in the ICL Group in Israel present their financial statements in dollars. The difference between the rate of increase in the CPI and the rate of change in the dollar exchange rate, both on an annual basis and on a cumulative basis, impacts the relationship between the actual tax and the reported income.

ZIM measures its results for tax purposes in dollars based on maintenance of its books for tax purposes in dollars, as provided in the Regulations.

On February 26, 2008, the Knesset (the Israeli Parliament) passed the Income Tax Law (Adjustments for Inflation) (Amendment 20) (Limitation of the Application Period), 2008 (hereinafter – "the Amendment"). Pursuant to the Amendment, application of the above-mentioned law will end in 2008 and starting from 2008, the law's provisions will no longer apply, except for the transitional rules the purpose of which is to prevent distortions in the tax calculations.

According to the Amendment, in the 2008 tax year and thereafter, adjustment of the revenues for tax purposes to a real (inflation-adjusted) base will no longer be made. In addition, linkage to the index of the depreciation amounts on fixed assets and the amounts of carryforward tax losses will be discontinued, such that these amounts will be adjusted up to the index for the end of the 2008 tax year, and their linkage to the index will cease from this date forward. Impact of the Amendment to the Inflationary Adjustments Law was reflected in calculation of the current taxes and the deferred taxes commencing from 2008.

Note 32 - Taxes on Income (cont'd)

E. Measurement of results for tax purposes (cont'd)

1. Companies in Israel (cont'd)

a. (cont'd)

The Income Tax Regulations – Adjustments for Inflation (Depreciation Rates), 1986, which allow depreciation at rates different than those in Section 21 of the Ordinance, will continue to apply even after the Inflationary Adjustments Law goes out of effect and, therefore, the Corporation will be able to claim accelerated depreciation in the upcoming periods.

By virtue of the Inflationary Adjustments Law, the industrial subsidiaries are entitled to claim accelerated depreciation on the property, plant and equipment.

b. According to the Israel Corporation Ltd. Law, 1969, the Corporation was exempted from capital gains tax for a period of 30 years, which ended in 1999.

c. On July 25, 2005, the Law for Amendment of the Income Tax Ordinance (No. 147 and Temporary Order), 2005 was passed, pursuant to which the Companies Tax rate will be gradually reduced in the following manner: in the 2007 tax year a tax rate of 29% will apply, in 2008 – 27%, in 2009 – 26%, and in 2010 and thereafter, a tax rate of 25% will apply. In addition, commencing from 2010, upon reduction of the Companies Tax rate to 25%, every real capital gain will be subject to tax at the rate of 25%.

d. On July 17, 2008, new regulations were published regarding accelerated depreciation providing a rule whereby a taxpayer will be entitled to claim accelerated depreciation (at the rate of 50%) on equipment used directly in qualifying activities in the industrial construction, agriculture and tourism sectors, which was acquired in the period from June 1, 2008 through May 31, 2009. Carmel Olefins adopted this regulation with respect to investments in property, plant and equipment acquired in the above-mentioned period and, accordingly, claimed accelerated depreciation for tax purposes.

2. Non-Israeli subsidiaries are assessed based on the tax laws in their resident countries.

F. Encouragement laws applicable to the subsidiaries

1) Tax benefits under the Law for Encouragement of Capital Investments, 1959 (hereinafter – "the Encouragement Law")

The production facilities of some of the subsidiaries in Israel (hereinafter – "the companies") have been granted "approved enterprise" or "preferred enterprise" status under the Encouragement Law, including Amendment No. 60 to the Law enacted in April 2005. The main benefits for which the company is eligible are:

Note 32 - Taxes on Income (cont'd)

F. Encouragement laws applicable to the subsidiaries (cont'd)

1) Tax benefits under the Law for Encouragement of Capital Investments, 1959 (hereinafter – "the Encouragement Law") (cont'd)

Reduced tax rates

During the benefits' period – ten years commencing with the first year in which there was taxable income from the approved or preferred enterprise (provided that the limitation period provided in the Law has not yet passed) – the companies are subject to tax on the income from the approved or preferred enterprises they own at preferential rates or they enjoy a full exemption from tax in respect of such income, as follows:

a. Companies Tax on Approved Enterprises at the rate of 0% or 25% in place of tax at the regular rate.

b. Companies Tax on Benefited Enterprises at the rate of 0% under the Regular Track and 11.5% under the Ireland Track in place of tax at the regular rate

In the case of distribution of a cash dividend out of the income with respect to which an exemption applied, as stated above, the company will be subject to payment of tax at a grossed-up rate of 25% on the amount distributed. The temporary difference related to the dividend from exempt income as at December 31, 2008 amounts to about $2,037 million.

The portion entitled to be taxed at preferential rates out the total amount of taxable income, is based in the ratio of the revenues attributable to the "Approved Enterprise" or "Benefited Enterprise", to the company's total revenues; in general, the revenues attributable to the "Approved Enterprise" are computed based on the increase in revenues over the "base" revenues relating to the year preceding the commencement year of the "Approved Enterprise", or other base as provided in the Letter of Approval. The revenues attributable to the "Benefited Enterprise" are computed based on the increase in revenues over the "base" revenues relating to the three years preceding the election year of the "Benefited Enterprise".

Accelerated Depreciation

With respect to buildings, machinery and equipment used by the Approved Enterprise, the Corporation is entitled to deduct accelerated depreciation pursuant to the provisions of the Law, commencing with the year in which the asset is placed into service.

Note 32 - Taxes on Income (cont'd)

F. Encouragement laws applicable to the subsidiaries (cont'd)

1) Tax benefits under the Law for Encouragement of Capital Investments, 1959 (hereinafter – "the Encouragement Law") (cont'd)

Conditions for Application of the Benefits

The benefits described above are contingent on compliance with conditions stipulated in the law, the regulations promulgated thereunder and the Letters of Approval in accordance with which the investments in the Approved Enterprises were made. A failure to comply with the conditions could give rise to a cancellation of the benefits, in whole or in part, and repayment of the benefit amounts together with delinquency interest.

The Law for the Encouragement of Capital Investments specified in the past that the period between the beginning of the year of operation of an "Approved Enterprise" under the "Grants Track" and the beginning of the election year of a "Benefited Enterprise" ("the cooling-off period") is five years. On November 16, 2008, Amendment No. 65 of the Law for the Encouragement of Capital Investments, 2008, was passed, according to which the "cooling-off period" was shortened from five years to three years with retroactive effect from April 1, 2005. The effect of this Amendment on the tax expense for 2008 resulted in tax income of about $70 million.

2) The Law for Encouragement of Industry (Taxes), 1969 (hereinafter – "the Industry Law")

a. Some of the Group companies in Israel are "Industrial Companies" within the meaning of the Industry Law. By virtue of this status, the companies are entitled to claim depreciation at accelerated rates with respect to equipment used in the industrial activities, as provided in the Regulations promulgated under the Encouragement Law.

b. The industrial plants owned by some of the Group companies in Israel have a common line of production and, therefore, are entitled to file consolidated tax returns in accordance with Section 23 of the Industry Law. Accordingly, each of the said companies is entitled to set off its tax losses against the taxable income of the other company.

G. Tax loss carryforwards

As at December 31, 2008, the Group has losses and deductions for tax purposes that may be carried forward to the succeeding year in the amount of about $1,280 million and capital losses for tax purposes in the amount of about $59 million. The Group recorded deferred taxes in respect of tax loss carryforwards in the amount of $660 million. The balance of loss carryforwards for which no deferred taxes have been created amounts to about $620 million. No deferred taxes were provided with respect to capital losses.

H. Final tax assessments

The Group companies have received final tax assessments for various periods up to and including the year ended December 31, 2006, nonetheless the assessments up to and including 2003 are considered final.

Note 33 - Earnings per Share

Data used in calculation of the basic and diluted earnings per share

A. Income allocated to the holders of the ordinary shareholders

	For the Year Ended December 31	
	2008	**2007**
	$ millions	**$ millions**
Net income for the year	**320**	113
Plus – impacts of share in income of investee companies	**4**	4
Income for the year allocated to the holders of the ordinary shares (basic)	**324**	117
Difference in respect of:		
Corporation's share in income of investee companies	**(4)**	(1)
Income for the year allocated to the holders of the ordinary shares (diluted)	**320**	116

B. Weighted-average number of ordinary shares

	For the Year Ended December 31	
	2008	**2007**
	Thousands of ordinary shares	
Balance at beginning of the year	**7,568**	7,567
Plus –		
Options held by a subsidiary exercised for shares of the Corporation	**43**	–
Shares deriving from conversion of debentures	**–**	1
Weighted-average number of shares used in calculation of the basic earnings per share	**7,611**	7,568
Plus –		
Impact of conversion of debentures	**–**	1
Impact of exercise of options for shares	**8**	50
Weighted-average number of shares used in calculation of the diluted earnings per share	**7,619**	7,619

Note 34 - Segment Information

A. General

In these financial statements, the Corporation has applied IFRS 8 regarding "Segment Activities" (hereinafter – "the Standard") for the first time. Pursuant to the Standard, segment information is presented with respect to the Group's activities and is based on the Group's internal management reports (hereinafter – "the Management Reports").

In the financial statements for prior periods, the Corporation applied IAS 14, and reported the segment information in the format of business segments (main report) and geographical segments (secondary report).

Breakdown of the Group into reportable activity segments in accordance with the Standard derives from the Management Reports, which are based on the legal entities making up the Group:

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

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

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

Information regarding the results of the activity segments is detailed below. Information relating to prior periods was restated. Evaluation of the Corporation's performance as part of the reports is based on the EBITDA income.

Note 34 - Segment Information (cont'd)

B. Information regarding reportable segments

Information regarding activities of the reportable segments is set forth in the following table. The segment performances are measured based on the pre-tax segment income.

Inter-segment pricing is determined based on the transaction prices in the ordinary course of business.

	ICL	ORL	ZIM	Other and adjustments	Total
			$ millions		
2008:					
Sales to external customers	6,899	8,257	4,302	344	19,802
Inter-segment sales	5	–	24	–	29
	6,904	8,257	4,326	344	19,831
Elimination of inter-segment sales	(5)	–	(24)	–	(29)
Total sales	6,899	8,257	4,302	344	19,802
Income (loss) before EBITDA	2,769	(77)	(20)	4	2,676
Depreciation and amortization	434	75	230	67	806
Financing income	(56)	(65)	(11)	(20)	(152)
Financing expenses	178	126	212	269	785
Share in losses (income) of associated companies	(14)	3	(12)	68	45
	542	139	419	384	1,484
Income (loss) before taxes	2,227	(216)	(439)	(380)	1,192
Taxes on income	233	(107)	(101)	(3)	22
Income (loss) for the year	1,994	(109)	(338)	(377)	1,170
Other significant non-cash items:					
Decline in value of fixed and intangible assets	206	–	97	–	303
Segment assets	5,711	2,369	3,260	2,740	14,080
Investments in associated companies	27	36	80	483	626
					14,706
Sector liabilities	3,227	1,854	2,835	3,134	11,050
Capital expenses	444	142	461	15	1,062

Note 34 - Segment Information (cont'd)

B. Information regarding reportable segments (cont'd)

	ICL	ORL	ZIM	Other and adjustments	Total
			$ millions		
2007:					
Sales to external customers	4,102	2,855	3,786	167	10,910
Inter-segment sales	2	–	23	–	25
	4,104	2,855	3,809	167	10,935
Elimination of inter-segment sales	(2)	–	(23)	–	(25)
Total sales	4,102	2,855	3,786	167	10,910
Income (loss) before EBITDA	935	160	159	(26)	1,228
Depreciation and amortization	192	40	107	27	366
Financing income	(27)	(7)	(75)	(61)	(170)
Financing expenses	104	87	112	213	516
Share in losses (income) of associated companies	(4)	–	(11)	38	23
	265	120	133	217	735
Income (loss) before taxes	670	40	26	(243)	493
Taxes on income	120	5	6	(11)	120
Income (loss) for the year	550	35	20	(232)	373
Other significant non-cash items:					
Decline in value of fixed and intangible assets	17	–	–	–	17
Segment assets	4,651	2,997	3,101	2,203	12,952
Investments in associated companies	39	54	48	503	644
					13,596
Sector liabilities	2,823	2,252	2,530	2,607	10,212
Capital expenses	506	37	886	1,070	2,499

* The results of the ORL segment are consolidated in the Corporation's financial statements commencing from June 1, 2007.

Note 34 - Segment Information (cont'd)

C. Information based on geographic areas

In presentation of the information on the basis of geographic segments, the segment revenues are based on the geographic location of the customers. The assets are based on the geographic location of the assets.

The Group's revenues from sales to outside customers on the basis of the geographic location of the assets are as follows:

	For the Year Ended December 31	
	2008	**2007**
	$ millions	**$ millions**
Europe	**4,508**	2,322
Asia	**2,243**	1,076
America	**2,563**	1,488
Israel	**5,669**	2,096
ZIM (1)	**4,302**	3,786
Other and adjustments	**517**	142
Total revenues	**19,802**	10,910

The Group's non-current assets on the basis of geographic areas*:

	For the Year Ended December 31	
	2008	**2007**
	$ millions	**$ millions**
Europe	**718**	664
America	**997**	888
Israel	**3,681**	3,463
ZIM (2)	**2,297**	2,197
Other and adjustments	**76**	46
Total revenues	**7,769**	7,258

* Composed of property, plant and equipment and intangible assets.

Note 34 - Segment Information (cont'd)

C. Information based on geographic areas (cont'd)

Set forth below is data with respect to ZIM:

(1) The Group's revenues from sales to outside on the basis of their geographic location from as follows:

	As at December 31	
	2008	**2007**
	$ millions	**$ millions**
Trans Pacific	**1,418**	1,282
Asia Europe	**917**	717
Trans Atlantic	**643**	608
Inland America	**221**	199
Inland Europe	**235**	215
Inland Asia	**184**	187
Other	**684**	578
	4,302	3,786

(2) ZIM's non-current assets on the basis of geographic areas:

	For the Year Ended December 31	
	2008	**2007**
	$ millions	**$ millions**
Trans Pacific	**523**	608
Asia Europe	**454**	369
Trans Atlantic	**188**	185
Inland America	**41**	36
Inland Europe	**84**	83
Inland Asia	**48**	52
Other	**164**	97
Unallocated	**795**	767
	2,297	2,197

Note 35 - Related and Interested Parties

A. Benefits to key management personnel

The benefits in respect of employment of key management personnel (including directors) include:

	For the year ended			
	2008		2007	
	No. of persons	$ thousands	No. of persons	$ thousands
Short-term employee benefits	**2**	**3,382**	3	3,023
Post-retirement benefits	–	**–**	1	1,870
Share-based payments	**1**	**1,732**	**–**	–
		5,114		4,893

Regarding an options plan for officers – see Note 23.

The benefits in respect of key management personnel (including directors) not employed by the Corporation:

	For the year ended			
	2008		2007	
	No. of persons	$ thousands	No. of persons	$ thousands
Directors not employed	**11**	**742**	10	463

B. Transactions with interested and related parties:

	For the Year Ended December 31	
	2008	2007
	$ thousands	$ thousands
Operating expenses of voyages and services	**155,508**	144,878
Administrative expenses	**539**	493

Note 35 - Related and Interested Parties (cont'd)

C. Balances with interested and related parties (consolidated):

	December 31				
	2008				2007
	Ofer group	Bank Leumi group	Bank Mizrahi group	Total interested and related parties	Total interested related and parties
	$ millions				
Cash and cash equivalents	–	184	100	284	135
Short-term deposits and loans	–	1	4	5	–
Trade and other receivables	–	17	–	17	–
Long-term deposits	–	13	2	15	–
Short-term credit	–	410	13	423	–
Trade and other payables	3	12	–	15	–
Long-term credit					
In dollars or linked thereto	65	160	67	292	342
Weighted-average interest rate (%)	6.92	2.59	2.66		
In CPI-linked Israeli currency	–	–	–	–	107
CPI-linked debentures	–	13	–	13	13
Interest rate (%)	–	5.45	–		

	Ofer group	Bank Leumi group	Bank Mizrahi group
	$ millions		
Repayment Years:			
Current maturities	5	63	37
Second year	6	37	15
Third year	6	35	15
Fourth year	6	6	-
Fifth year	7	9	-
Sixth year and thereafter	35	23	-
	65	173	67

Note 35 - Related and Interested Parties (cont'd)

D. During 2006, ZIM's Board of Directors decided that, in light of the special characteristics of the shipping industry, transactions involving leasing of ships from interested parties for periods not in excess of five years will be considered transactions that are not extraordinary, this being subject to limitations regarding the number of ships leased from interested parties for short time periods and the financial obligations in respect thereof. Every lease transaction for a short time period with an interested party that deviates from the limitations provided will be considered an extraordinary transaction.

As at December 31, 2008, ZIM was in compliance with the limitations provided.

In addition, it was decided to approve the joint venture agreement ("the framework agreement") between ZIM and the interested parties in the Corporation. The subject matter of the framework agreement is joint cooperation between ZIM and an interested party for 12 years commencing from May 2006 (the date of its approval ZIM's General Meeting). The framework agreement includes a number of limitations, tests and benchmarks that are intended to ensure the appropriateness, extent, fairness and transparency of every transaction executed under the framework agreement and will allow the Audit Committees and the Boards of Directors of ZIM and of Israel Corporation to examine each separate transaction's compliance with the said conditions.

Regarding commitments with interested parties in respect of operating leases of ships and the equipping thereof – see Note 22C(3).

E. In 2007 Audit Committees and Boards of Directors of ZIM and the Corporation approved a procedure for use of private jet services from an interested-party company. In respect of the private jet services by the Corporation's Chairman of the Board of Directors, Mr. Idan Ofer, and a position holder in the Corporation, the Corporation will pay the flight company an amount not in excess of the amount equal to the price of a "business class" flight ticket to the same destination as it will be from time to time, for every position-holder passenger on the relevant flight.

F. As part of establishment of the Corporation's presence in China, which will be responsible for development and advancement of its matters in China, the Corporation's Audit Committee approved an undertaking in an arrangement with a related company of its controlling interest whereby the Corporation will receive office services in China from the office of the said company in exchange for participation, at the rate of 75%, in the total monthly cost of these services. Pursuant to the conditions of the arrangement, the Corporation's participation in the cost as stated is about U.S.$19,000 per month.

G. Regarding indemnification and liability insurance of officers – see Note 22C(1).

H. Disclosure of transactions with associated companies is provided as part of the notes.

Note 36 - Financial Risk Management

A. General

The Group has extensive international activity in which it is exposed to credit, liquidity and market risks (including currency, interest and other price risks). In order to reduce the exposure to these risks, the Group uses financial derivative instruments, including forward transactions, swap transactions and options.

This note presents information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing risk.

The risk management of the Group companies is executed by them as part of the ongoing current management of the companies. The Group companies monitor on a regular basis the extent of the exposures and the hedge documentation of various matters. The hedge policies of all the different types of exposures are discussed by the boards of directors of the companies.

The comprehensive responsibility for establishing the base for the Group's risk management and for supervising its implementation lies with the Board of Directors. The Board of Directors appointed the Corporation's CFO to manage the risks of the Corporation and of the headquarters companies. The Finance Committee discusses the Corporation's risk management on a current basis.

The Audit Committee of the Board of Directors, in accordance with the work plan provided from time to time, also supervises Management's monitoring of compliance with the Corporation's risk management policies and procedures.

B. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade and other receivables and from investments in securities, as well as from investments in securities and transactions in derivatives.

The Group's cash and cash equivalents, the short-term deposits and short-term marketable investments are deposited mainly in banks and financial institutions in Israel, Europe and the United States. The marketable securities of the Group are mainly debentures of Israeli and foreign corporations as well as debentures of the Government of Israel and mutual funds that invest mainly in debentures. The Group evaluates that the credit risk in respect of these balances is low.

The Group limits the exposure to credit risk by investing solely in liquid securities where restrictions have been set for investment in rated credit and treasury notes.

The transactions in derivatives are executed with large financial institutions in Israel and abroad, and therefore in the opinion of management of the Group the credit risk in their respect is low.

Most of the Group's sales are made to a large number of customers and, therefore, exposure to a concentration of credit risk in respect of trade receivables is limited. The Group regularly examines the quality of its customers and includes in its accounts an appropriate provision for doubtful debts. Some of the trade receivables are covered by foreign trade risk insurance.

The Group companies deposit most of their liquid financial assets solely in short-term bank deposits. All the deposits are with first-rate banks while spreading the amounts appropriately among the banks and preferred use of banks that provide loans to the company.

Note 36 - Financial Risk Management (cont'd)

C. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Corporation monitors the liquidity risk by means of holding cash balances, short-term deposits and a liquid financial portfolio.

D. Market risks

Market risk is the risk that changes in market prices, such as foreign exchange rates, the CPI, interest rates and prices of capital products and instruments will affect the fair value of the future cash flows of a financial instrument.

The Group buys and sells derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Boards of Directors of the companies. For the most part, the Group companies enter into hedging transactions for purposes of avoiding economic exposures created by their activities.

Currency risk

The Group's functional currency is the U.S. dollar. The Group's exposures are measured with reference to the changes in the exchange rate of the dollar vis-à-vis the other currencies in which it transacts business.

The Group is exposed to currency risk on sales, purchases, assets and liabilities that are denominated in a currency other than the respective functional currencies of Group entities, primarily the shekel, euro, pound, yuan, yen and Brazilian real.

The Group uses option and forward exchange contracts on exchange rates for purposes of hedging short-term currency risks, usually up to one year, in order to reduce the risk with respect to the final cash flows in dollars deriving from the existing assets and liabilities and sales and purchases of goods and services within the framework of firm or anticipated commitments, including in connection with future operating expenses.

The Group is exposed to currency risk in connection with loans it has taken out and debentures it has issued in currencies other than the dollar. The principal amounts of these bank loans and debentures have been hedged by swap transactions the repayment date of which corresponds with the payment date of the loans and debentures.

Note 36 - Financial Risk Management (cont'd)

D. Market risks (cont'd)

Interest rate risk

The Group is exposed to changes in the interest rates in respect of loans bearing interest at variable rates, as well as in connection with swap transactions of liabilities in foreign currency for dollar liabilities bear a variable interest rate.

The Group has not set a policy limiting the exposure and it hedges this exposure based on forecasts of future interest rates.

The Group enters into transactions mainly to reduce the exposure to cash flow risk in respect of interest rates. The transactions include IRS interest swaps and "collar" interest swaps. Some of the transactions include hedging above a certain interest rate (highest level) while, on the other hand, in order to finance them, there is a commitment at an interest rate at the lowest level. In addition, options are acquired and written for hedging the interest rate at different rates.

The Group's assets and liabilities bearing fixed interest are not measured at fair value through the statement of income. Therefore, changes in the interest rate as at the balance sheet date are not expected to have an impact on the income or loss due to changes in the value of the assets and liabilities bearing fixed interest.

Inflation risk

The Group companies have issued shekel debentures or CPI-linked debentures. In order to reduce part of the exposure to changes in the CPI, the Group makes use of interest and currency swaps (see exchange rate risk management). In addition, hedging transactions are executed against a rise in the CPI above the CPI anticipated on the execution date of the transactions by fixed the rate of change in the CPI.

Some of the current expenses of the Group companies are linked to the CPI while the revenues are linked to the dollar. This difference in the linkage base is a source of exposure from inflationary developments, this being in addition to other CPI-linked liabilities.

This exposure is discussed by the managements of the companies only where there is a forecast of significant changes in the macro-economic indicators.

Other market price risks

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sale requirements.

From time to time, a subsidiary enters into SWAP transactions in order to reduce the exposure to the changes in fuel prices on the cash flows in connection with acquisition in the upcoming year of fuel intended for current operations.

The subsidiary enters into transactions hedging the risks deriving from a change in the price of crude oil and its related products.

Note 37 – Financial Instruments

A. Credit risk

(1) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at the balance sheet date was as follows:

	As at December 31	
	2008	**2007**
	Book value in $ millions	
Cash and cash equivalents	**769**	519
Marketable securities	**367**	443
Short-term investments, loans and deposits	**245**	86
Trade receivables	**1,630**	1,765
Receivables and other debit balances, including derivative instruments	**357**	260
Deposits, loans and other debit balances, including long-term derivative instruments	**253**	97
	3,621	3,170

The maximum exposure to credit risk for trade receivables, as at the balance sheet date, by geographic region was as follows:

	As at December 31	
	2008	**2007**
	Carrying amount	
	$ millions	$ millions
Domestic	**320**	383
Euro-zone countries	**387**	597
India	**321**	155
The Far East	**102**	151
South America	**220**	102
North America	**195**	213
Other regions	**85**	164
	1,630	1,765

Note 37 – Financial Instruments (cont'd)

A. Credit risk (cont'd)

(2) Aging of debts and impairment losses

Set forth below is an aging of the trade receivables:

	As at December 31		As at December 31	
	2008	2008	2007	2007
	Gross	Impairment	Gross	Impairment
	$ millions	$ millions	$ millions	$ millions
Not past due	**1,337**	**4**	1,645	2
Past due up to 3 months	**281**	**5**	109	5
Past due 3–6 months	**15**	**–**	10	1
Past due 6–9 months	**4**	**1**	3	–
Past due 9–12 months	**3**	**–**	2	–
Past due more than one year	**16**	**16**	16	12
	1,656	**26**	1,785	20

The movement in the provision for impairment in respect of trade receivables was as follows:

	For the year ended December 31	
	2008	2007
	$ millions	$ millions
Balance as at January 1	**20**	17
Initial consolidation	**–**	9
Loss from decline in value of trade receivables recognized in the period	**7**	3
Write off of customer receivables defined as uncollectible	**(1)**	(1)
Cancellation of provision previously recognized	**–**	(3)
Exit from the consolidation	**–**	(5)
Balance as at December 31	**26**	20

During 2008, ICL reached a new agreement with respect to the payments terms of an old customer that owes the company $109 million. As part of the agreement, the credit days were extended, under the existing credit insurance, in exchange for additional interest and collaterals. No provision for impairment was included in connection with the debt.

Note 37 – Financial Instruments (cont’d)

B. Liquidity risk (cont’d)

Set forth below are the anticipated repayment dates of the financial liabilities, including an estimate of the interest payments. This disclosure does not include amounts regarding which there are offset agreements:

	As at December 31, 2008					
	Book value	Projected cash flows	Up to 1 year	1–2 years	2–5 years	More than 5 years
	$ millions					
Non-derivative financial liabilities						
Credit from banks and others	**1,517**	**1,569**	**1,569**	**–**	**–**	**–**
Trade payables	**997**	**997**	**997**	**–**	**–**	**–**
Other payables and credit balances	**856**	**856**	**856**	**–**	**–**	**–**
Non-convertible debentures	**2,741**	**3,435**	**119**	**340**	**1,573**	**1,403**
Loans from banks and others	**2,967**	**3,888**	**140**	**441**	**2,298**	**1,009**
Liabilities in respect of financing lease	**398**	**479**	**21**	**67**	**167**	**224**
Financial liabilities hedging instruments						
Interest SWAP contracts	**63**	**62**	**4**	**16**	**22**	**20**
Financial liabilities not for hedging						
Interest SWAP contracts	**73**	**69**	**6**	**15**	**43**	**5**
CPI contracts	**7**	**8**	**1**	**2**	**2**	**3**
Cylinder instruments	**25**	**25**	**5**	**10**	**10**	**–**
Derivatives on exchange rates	**28**	**29**	**28**	**1**	**–**	**–**
Forward contracts on commodity prices	**41**	**41**	**41**	**–**	**–**	**–**
	9,713	**11,458**	**3,787**	**892**	**4,115**	**2,664**

	As at December 31, 2007					
	Book value	Projected cash flows	Up to 1 year	1–2 years	2–5 years	More than 5 years
	$ millions					
Non-derivative financial liabilities						
Credit from banks and others	1,402	1,445	1,445	–	–	–
Trade payables	1,321	1,321	1,321	–	–	–
Other payables and credit balances	636	636	636	–	–	–
Non-convertible debentures	2,390	3,047	91	414	876	1,666
Loans from banks and others	2,728	3,402	64	870	1,492	976
Liabilities in respect of financing lease	208	268	41	47	92	88
Financial liabilities hedging instruments						
Interest SWAP contracts	3	4	1	2	1	–
Financial liabilities not for hedging						
Interest SWAP contracts	2	2	–	–	1	1
Derivatives on exchange rates	2	2	2	–	–	–
	8,697	10,132	3,606	1,333	2,462	2,731

Note 37 – Financial Instruments (cont'd)

B. Liquidity risk (cont'd)

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur.

	For the year ended December 31, 2008					
	Book value	**Projected cash flows**	**0–1 years**	**2–3 years**	**4–5 years**	**More than 5 years**
	$ millions					
Interest rate swap contracts	**(40)**	**(40)**	**(7)**	**(22)**	**(10)**	**(1)**
Forward contacts on exchange rates	**(25)**	**(25)**	**–**	**(1)**	**(7)**	**(17)**
	(65)	**(65)**	**(7)**	**(23)**	**(17)**	**(18)**

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur, and impact the statement of income:

	For the year ended December 31, 2008					
	Book value	**Projected cash flows**	**0–1 years**	**2–3 years**	**4–5 years**	**More than 5 years**
	$ millions					
Interest rate swap contracts	(40)	(40)	(7)	(22)	(10)	(1)
Forward contacts on exchange rates	(25)	(25)	–	(1)	(7)	(17)
	(65)	(65)	(7)	(23)	(17)	(18)

Note 37 – Financial Instruments (cont'd)

C. CPI and foreign currency risks (cont'd)

(1) Exposure to CPI and foreign currency risks

The Group's exposure to CPI and foreign currency risk, based on nominal amounts, is as follows:

	As at December 31, 2008					
	Shekel		Foreign currency			
	Unlinked	CPI linked	Dollar	Euro	British pound	Other
	$ millions					
Non-derivative instruments						
Cash and cash equivalents	**46**	**–**	**613**	**55**	**1**	**55**
Short-term investments, deposits and loans	**178**	**71**	**281**	**49**	**14**	**18**
Trade receivables	**158**	**–**	**1,113**	**247**	**18**	**93**
Other receivables and debit balances	**39**	**46**	**97**	**41**	**4**	**11**
Investments in other companies	**–**	**–**	**31**	**–**	**–**	**–**
Deposits, loans and debit balances	**124**	**8**	**36**	**4**	**–**	**9**
Total financial assets	**545**	**125**	**2,171**	**396**	**37**	**186**
Credit from banks and others	**169**	**98**	**1,208**	**38**	**1**	**3**
Trade payables	**235**	**–**	**492**	**192**	**11**	**68**
Other payables and credit balances	**235**	**8**	**316**	**79**	**9**	**15**
Long-term loans from banks and others and debentures	**136**	**2,329**	**3,387**	**164**	**–**	**84**
Total financial liabilities	**775**	**2,435**	**5,403**	**473**	**21**	**170**
Total non-derivative financial instruments, net	**(230)**	**(2,310)**	**(3,232)**	**(77)**	**16**	**16**
Derivative instruments	**292**	**1,934**	**(1,709)**	**(666)**	**57**	**60**
Net exposure	**62**	**(376)**	**(4,941)**	**(743)**	**73**	**76**

Note 37 – Financial Instruments (cont'd)

C. CPI and foreign currency risks (cont'd)

(1) Exposure to CPI and foreign currency risks (cont'd)

	As at December 31, 2007					
	Shekel		Foreign currency			
	Unlinked	CPI linked	Dollar	Euro	British pound	Other
	$ millions					
Non-derivative instruments						
Cash and cash equivalents	54	–	435	23	1	7
Short-term investments, deposits and loans	139	94	229	12	5	11
Trade receivables	231	–	1,085	321	38	90
Other receivables and debit balances	29	33	183	15	4	6
Investments in other companies	–	–	33	–	–	–
Long-term deposits, loans and debit balances	12	23	55	19	–	10
Total financial assets	465	150	2,020	390	48	124
Credit from banks and others	187	99	972	100	4	19
Trade payables	311	–	717	197	10	86
Other payables and credit balances	164	1	200	84	11	11
Long-term loans from banks and others and debentures	130	2,031	2,914	11	–	5
Total financial liabilities	792	2,131	4,803	392	25	121
Total non-derivative financial instruments, net	(327)	(1,981)	(2,783)	(2)	23	3
Derivative instruments	266	1,032	(930)	(209)	–	42
Net exposure	(61)	(949)	(3,713)	(211)	23	45

Note 37 – Financial Instruments (cont'd)

C. CPI and foreign currency risks (cont'd)

(2) Sensitivity analysis

A strengthening at the rate of 5%–10% of the dollar exchange rate against the following currencies would have increased (decreased) the income or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

	As at December 31, 2008			
	10% increase	5% increase	5% decrease	10% decrease
	$ millions	$ millions	$ millions	$ millions
Non-derivative instruments				
Dollar/shekel	**205**	**106**	**(116)**	**(244)**
Dollar/euro	**16**	**7**	**(7)**	**(15)**
Dollar/pound	**(1)**	**–**	**–**	**1**
Dollar/yen	**(2)**	**(1)**	**1**	**2**
Dollar/real	**(1)**	**–**	**–**	**(1)**
CPI	**(185)**	**(92)**	**92**	**157**

	As at December 31, 2007			
	10% increase	5% increase	5% decrease	10% decrease
	$ millions	$ millions	$ millions	$ millions
Non-derivative instruments				
Dollar/shekel	187	97	(106)	(220)
Dollar/euro	8	5	(5)	(10)
Dollar/pound	(1)	(1)	–	1
Dollar/yen	(1)	(1)	1	1
Dollar/real	(1)	(1)	1	1
Dollar/yuan	(2)	–	–	(2)
CPI	(203)	(101)	100	198

Note 37 – Financial Instruments (cont'd)

C. CPI and foreign currency risks (cont'd)

(2) Sensitivity analysis (cont'd)

Set forth below is a sensitivity analysis in connection with the Corporation's foreign-currency derivative instruments as at December 31, 2008 and December 31, 2007. A change in the exchange rates of the main currencies as at December 31, would have increased (decreased) the income or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	As at December 31, 2008			
	10% increase	**5% increase**	**5% decrease**	**10% decrease**
	$ millions	**$ millions**	**$ millions**	**$ millions**
<u>Derivative instruments</u>				
Shekel/dollar	**(197)**	**(104)**	**116**	**244**
Euro/ dollar	**(58)**	**(31)**	**34**	**72**
Pound/ dollar	**2**	**1**	**(1)**	**(2)**
Yen/ dollar	**2**	**1**	**(2)**	**(2)**
CPI	**190**	**95**	**(95)**	**(190)**

	As at December 31, 2007			
	10% increase	**5% increase**	**5% decrease**	**10% decrease**
	$ millions	**$ millions**	**$ millions**	**$ millions**
<u>Derivative instruments</u>				
Shekel/dollar	(95)	(49)	53	112
Euro/ dollar	(22)	(14)	16	32
Pound/ dollar	(407)	(213)	236	498
Yen/ dollar	2	1	(1)	(2)
CPI	130	65	(65)	(130)

Note 37 – Financial Instruments (cont'd)

D. Interest rate risk

(1) Type of interest

Set forth below is detail of the type of interest borne by the Group's interest-bearing financial instruments:

	As at December 31	
	2008	2007
	Carrying amount	
	$ millions	$ millions
Fixed rate instruments		
Financial assets	**1,570**	366
Financial liabilities	**(3,758)**	(2,657)
	(2,188)	(2,291)
Variable rate instruments		
Financial assets	**510**	269
Financial liabilities	**(4,871)**	(4,174)
	(4,361)	(3,905)

(2) Fair value sensitivity analysis for fixed-rate instruments

The Group's assets and liabilities bearing fixed interest are not measured at fair value through the statement of income, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in the interest rates as at the balance sheet date would not be expected to affect the income or loss in respect of changes in the value of fixed-interest assets and liabilities.

Note 37 – Financial Instruments (cont'd)

D. Interest rate risk (cont'd)

(3) Cash flow sensitivity analysis for variable rate instruments

This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2007.

	As at December 31, 2008			
	Impact on income or loss			
	1% decrease in interest	0.5% decrease in interest	0.5% increase in interest	1% increase in interest
	$ millions	$ millions	$ millions	$ millions
Non-derivative instruments	**24**	**11**	**(11)**	**(27)**
Interest rate swap contracts	**(19)**	**(8)**	**9**	**20**
Cylinder instruments	**(9)**	**(4)**	**4**	**8**
Interest rate swap transactions	**9**	**5**	**(5)**	**(9)**
	5	**4**	**(3)**	**(12)**

	As at December 31, 2008			
	Impact on capital			
	10% decrease in interest	5% decrease in interest	5% increase in interest	10% increase in interest
	$ millions	$ millions	$ millions	$ millions
Non-derivative instruments	**23**	**11**	**(11)**	**(26)**
Interest rate swap contracts	**(30)**	**(14)**	**11**	**10**
Cylinder instruments	**(15)**	**(7)**	**7**	**14**
Interest rate swap transactions	**9**	**5**	**(5)**	**(9)**
	(13)	**(5)**	**2**	**(1)**

Note 37 – Financial Instruments (cont'd)

D. Interest rate risk (cont'd)

(3) Cash flow sensitivity analysis for variable rate instruments (cont'd)

	As at December 31, 2007			
	Impact on income or loss			
	1% decrease in interest	0.5% decrease in interest	0.5% increase in interest	1% increase in interest
	$ millions	$ millions	$ millions	$ millions
Non-derivative instruments	**(59)**	**(29)**	**29**	**59**
Interest rate swap contracts	**(16)**	**(8)**	**8**	**16**
Cylinder instruments	**(1)**	**(1)**	**1**	**1**
Interest rate swap transactions	**2**	**1**	**(1)**	**(2)**
	(74)	**(37)**	**37**	**74**

	As at December 31, 2007			
	Impact on capital			
	10% decrease in interest	5% decrease in interest	5% increase in interest	10% increase in interest
	$ millions	$ millions	$ millions	$ millions
Non-derivative instruments	**(59)**	**(29)**	**29**	**59**
Interest rate swap contracts	**(16)**	**(8)**	**8**	**16**
Cylinder instruments	**(1)**	**(1)**	**1**	**1**
Interest rate swap transactions	**2**	**1**	**(1)**	**(2)**
	(74)	**(37)**	**37**	**74**

E. Fair value

Fair values versus carrying amounts

The financial instruments of the Group mostly include non-derivative assets, such as: cash and cash equivalents, investments, deposits and short-term loans, debtors and debit balances, investments and long-term receivables, non-derivative liabilities, such as: short-term credit, creditors and credit balances, long-term loans and other liabilities; as well as derivative financial instruments.

Due to their nature, the fair value of the financial instruments included in the working capital of the Group is generally identical or approximates the value, according to which they are stated in the accounts. The fair value of the long-term deposits and receivables and the long-term liabilities also approximates their stated value, as these financial instruments bear interest at a rate that approximates the accepted market rate of interest.

Note 37 – Financial Instruments (cont'd)

E. Fair value (cont'd)

The following table shows in detail the stated value and the fair value of financial instrument groups presented in the financial statements not in accordance with their fair value.

	As at December 31			
	2008		2007	
	Carrying amount	Fair value	Carrying amount	Fair value
	$ millions	$ millions	$ millions	$ millions
Convertible and non-convertible debentures	**2,741**	**2,509**	2,390	2,505
Loans from banks and others	**3,415**	**3,278**	2,940	2,938

The fair value of the long-term loans received is based on a calculation of the present value of the cash flows based on the Libor rate customary for similar loans having similar characteristics – 2.4%–10.3% (December 31, 2007 – 4.7%–7.4%).

The fair value of the debentures received is based on a calculation of the present value of the cash flows based on the Libor rate customary for similar debentures having similar characteristics – 2.4%-20% (December 31, 2007 – 3%–8%).

Note 38 - Group Entities

Significant subsidiaries

		December 31, 2008		December 31, 2007	
	State of incorporation	Ownership rate %	Voting rate %	Ownership rate %	Voting rate %
Israel Chemicals Ltd.	Israel	53.2	53.2	52.2	52.2
ZIM Integrated Shipping Services Ltd.	Israel	99.1	99.1	98.3	98.3
Oil Refineries Ltd.	Israel	45.1	45.1	45.1	45.1
Inkia Energy Ltd.	Bermuda	100.0	100.0	100.0	100.0

Note 39 - Events Occurring Subsequent to the Balance Sheet Date

A. Regarding an additional investment in Better Place – see Note 11.C.1.
B. Regarding adoption of an updated business plan for a joint venture – see Note 11.C.2.
C. Regarding transfer of $20 million against issuance of Tower shares – see Note 11.C.4.2.C.
D. Regarding an acquisition by ICL of its own shares – see Note 12.3.C.
E. Regarding lowering of the credit rating of the Corporation and ZIM by Ma"alot – see Note 17.D.4. and Note 17.D.6., respectively.
F. Regarding developments in the claims against ORL – see Note 22.B.2.B.
G. Regarding cancellation of the claim against the Corporation and Quantum – see Note 22.B.2.D.
H. Regarding approval by the State of expansion of the desalinization plants in Ashdod and Hadear – see Note 22.C.2.H.1. and Note 22.C.2.H.3., respectively.
I. Regarding receipt and sale of a ship by ZIM – see Note 22.C.3.A.2.
J. Regarding the end of a lease agreement between ZIM and an interested party – see Note 22.C.3.F.

Note 40 - Condensed Separate-Company Financial Data

Presented hereunder is condensed financial data based on the Corporation's separate-company financial statements (hereinafter – "the Separate-Company Financial Statements"), which is presented in accordance with FAQ 11 of the Securities Authority regarding the attachment of Separate-Company Financial Statements to financial statements prepared in accordance with IFRS.

The accounting policies described in Note 3 regarding the significant accounting policies were applied in the preparation of this condensed note, other than that described hereunder:

A. Measurement of investments in investee companies

The Corporation accounts for its investments in subsidiaries, jointly controlled entities and associated companies according to the cost model and in accordance with amendment to IAS 27, whereby a dividend received from subsidiaries, jointly controlled entities and associated companies will be recognized as revenue in the Separate-Company Financial Statements of the holding company.

B. Determination of the carrying value of investments in investee companies on the date of transition to IFRS

The Corporation elected to implement the instruction of revised IFRS 1, whereby a company that has elected the cost model for measuring investments in subsidiaries, jointly controlled entities and associated companies may measure these investments in the Separate-Company Financial Statements on the transition date to IFRS at deemed cost, which is the fair value or carrying value in accordance with previous GAAP.

The Corporation elected to measure all its investments, as stated based on their book value in accordance with prior generally accepted accounting principles. The book value of the investments in accordance with the prior generally accepted accounting principles, as at January 1, 2007, amounted to $1,576 million.

Note 40 - Condensed Separate-Company Financial Data (cont'd)

A. Balance sheets

	As at December 31	
	2008	**2007**
	$ millions	**$ millions**
Current assets		
Cash and cash equivalents	**216**	29
Securities held for trade	**–**	5
Short-term loans	**132**	70
Other receivables and debit balances, including derivative instruments	**110**	44
Income tax receivable	**19**	8
Total current assets	**477**	156
Non-current assets		
Investments in associated companies	**2,992**	2,635
Investments in other companies	**9**	1
Loans to investee companies	**444**	485
Total non-current assets	**3,445**	3,121
Total assets	**3,922**	3,277
Current liabilities		
Credit from banks and others	**114**	240
Provisions	**3**	5
Other payables and credit balances, including derivative instruments	**99**	26
Total current liabilities	**216**	271
Non-current liabilities		
Loans from banks	**566**	446
Debentures	**1,393**	1,161
Deferred taxes	**32**	32
Total long-term liabilities	**1,991**	1,639
Total liabilities	**2,207**	1,910
Equity		
Share capital and premium	**273**	273
Retained earnings	**1,442**	1,094
Total equity	**1,715**	1,367
Total liabilities and equity	**3,922**	3,277

Note 40 - Condensed Separate-Company Financial Data (cont'd)

B. Statements of income

	For the Year Ended December 31	
	2008	2007
	$ millions	$ millions
Dividend income	**551**	245
Expenses		
Administrative and general expenses	**(5)**	(3)
Other expenses	**(2)**	(2)
	544	240
Financing expenses, net	**145**	136
Income before taxes on income	**399**	104
Taxes on income	**1**	3
Income for the year	**398**	101

C. Statements of recognized income and expenses

	For the Year Ended December 31	
	2008	2007
	$ millions	$ millions
Net change in fair value of financial assets classified as available for sale	**(3)**	–
Net change in fair value of financial assets classified as available for sale transferred to the statement of income	**3**	–
Other comprehensive income for the year	**–**	–
Income for the year	**398**	101
Comprehensive income for the year	**398**	101

Note 40 - Condensed Separate-Company Financial Data (cont'd)

D. Statements of cash flows

	For the Year Ended December 31	
	2008	2007
	$ millions	$ millions
Cash flows from operating activities		
Net income for the year	**398**	101
Adjustments:		
Dividend income	**(551)**	(245)
Financing expenses, net	**145**	136
Capital gains, net	**–**	(5)
Taxes on income	**1**	3
Change in receivables	**(11)**	(4)
Change in provisions and other payables	**–**	10
Dividend received	**551**	245
Net cash provided by operating activities	**533**	241
Cash flows from investing activities		
Investment in securities held for trade	**–**	(5)
Collection (provision) of short-term loans, net	**(48)**	533
Investment in investee and other companies	**(291)**	(1,445)
Collection of long-term loans	**86**	45
Provision of long-term loans	**(92)**	(23)
Interest received	**10**	–
Net cash used in investing activities	**(335)**	(895)
Cash flows from financing activities		
Receipt of long-term loans and issuance of debentures	**434**	607
Dividend paid	**(50)**	(61)
Repayment of long-term loans and debentures	**(72)**	(16)
Short-term credit from banks and others, net	**(210)**	210
Interest paid	**(127)**	(74)
Net cash provided by (used in) financing activities	**(25)**	666
Net increase in cash and cash equivalents	**173**	12
Cash and cash equivalents at the beginning of the year	**29**	15
Effect of exchange rate fluctuations on balances of cash and cash equivalents	**14**	2
Cash and cash equivalents at the end of the year	**216**	29

Note 41 - Explanation Regarding the Effects of the Transition to IFRS

A. General

As stated in Note 2A, the consolidated financial statements prepared by the Group are the first annual consolidated financial statements prepared on the basis of IFRS.

The accounting policies set out in Note 3 that have been applied in preparing the consolidated financial statements for the year ended December 31, 2008, and the comparative data for the year ended December 31, 2007 and in the opening IFRS balance sheet as at January 1, 2007 (hereinafter – "the Transition Date").

This note has been prepared on the basis of IFRS standards as known as of today, that are effective or available for early adoption at the Group's first IFRS annual reporting date, December 31, 2008, and were the basis for the Corporation's accounting policies.

B. Detail of the Relief Provisions Selected

Set forth below is detail of the relief provisions the Corporation has selected under IFRS 1 and regarding which the Corporation is not making retroactive application as at the Transition Date of IFRS:

1. Business Combinations

The Corporation did not retroactively apply IFRS 3 (which deals with business combinations) and, therefore, goodwill and excess cost created in business combinations, in acquisitions of affiliated companies, companies under joint control and minority acquisitions after obtaining control, taking place prior to January 1, 2007 were not treated in accordance with IFRS 3 but, rather, pursuant to generally accepted accounting principles in Israel.

2. Translation Differences from Foreign Activities

The Corporation elected to apply the relief provision provided in IFRS 1 whereby as at the Transition Date the cumulative balances of the reserve for translation differences relating to all the foreign activities as at the Transition Date will be recorded to the retained earnings' balance on the Transition Date.

3. Compound Financial Instruments

In accordance with the relief provided in IFRS 1, the Corporation has chosen not to split compound financial instruments into a liability component and an equity component in accordance with IAS 32, "Financial Instruments: Presentation and Disclosure", since the liability no longer exists on the Transition Date.

4. Share-Based Payment Transactions

In accordance with Israeli GAAP, as from January 1, 2006 the Corporation recognized share-based payment transactions with respect to grants awarded after March 15, 2005 that had not yet vested as at January 1, 2006. In accordance with the relief in IFRS 1, share-based payments awarded before November 7, 2002 that have fully vested by January 1, 2007 were not retroactively accounted for, in accordance with the relief provisions of IFRS 1.

Note 41 - Explanation Regarding the Effects of the Transition to IFRS (cont'd)

B. Detail of the Relief Provisions Selected (cont'd)

5. Property, plant and equipment

The Corporation elected to apply the relief provision in IFRS 1 whereby it will measure property, plant and equipment items (land, buildings, machinery and equipment) in accordance with fair value as at January 1, 2007 and will use such fair value as the deemed cost on the Transition Date.

6. Leases

The Corporation implements the transitional provisions of IFRIC 4, "Determining Whether an Arrangement Contains a Lease". Therefore, the Corporation determines whether an arrangement that existed on the date of transition included a lease on the basis of the facts and circumstances that existed on January 1, 2007 (the date of transition to IFRS).

C. Accounting Policy Adopted where IFRS allows Different Alternatives

1. Actuarial gains and losses

The Corporation has chosen one of the alternatives allowed in IAS 19 as its policy for accounting for actuarial gains and losses. In accordance with the alternative chosen the actuarial gains and losses will be immediately recognized against shareholders' equity (retained earnings). In the opinion of the Corporation this alternative is preferable since the net liability to the employees on the cutoff date is presented at fair value according to this alternative. Furthermore, under this alternative, the statement of operations more appropriately reflects the Corporation's results of operations for the reported period by preventing possible fluctuations from actuarial gains and losses.

2. Jointly controlled entities

In accordance with Israeli GAAP, entities in which the Corporation has joint control are presented according to the proportionate consolidation method. In accordance with IFRS, the investment in such entities may be presented according to the proportionate consolidation method or on the equity basis. The Corporation has chosen to implement the alternative of presenting investee companies under joint control according to the proportionate consolidation method, since there is legal joint control and therefore the proportionate consolidation of the companies more appropriately reflects the Corporation's financial position and results of operations. Furthermore, the alternative chosen is consistent with the accounting treatment the Corporation applied before the transition to IFRS.

D. Impact of the transition to IFRS

The tables and notes hereunder provide an explanation of the effects of the transition from Israeli GAAP to IFRS on the Corporation's financial position, results of operations and cash flows.

Note 41 - Explanation Regarding the Effects of the Transition to IFRS (cont'd)

D. Adjustments to IFRS (cont'd)

1. Balance sheet as at January 1, 2007

	January 1, 2007			
	Israeli GAAP**	Israeli GAAP	Impact of transition to IFRS	IFRS
	NIS millions	$ millions*	$ millions	$ millions
Current assets				
Cash and cash equivalents	975	231	-	231
Marketable securities	2,760	653	-	653
Short-term investments, deposits and loans	1,421	336	-	336
Trade receivables	3,137	742	218	960
Other receivables and debit balances	1,150	272	(64)	208
Income tax receivable	26	6	-	6
Inventory	3,425	807	-	807
Total current assets	12,894	3,047	154	3,201
Long-term investments, loans and receivables				
Investments in associated companies	429	101	1	102
Investments in other companies	14	3	-	3
Long-term deposits, loans and other debit balances, including derivatives	234	55	74	129
Deferred taxes	28	7	16	***23
Non-current inventory	118	34	-	34
Minority debts	72	17	(17)	-
Property, plant and equipment	13,329	3,155	(35)	3,120
Intangible assets	1,408	333	64	397
Total non-current assets	15,632	3,705	103	3,808
Total assets	28,526	6,752	257	7,009

Note 41 - Explanation Regarding the Effects of the Transition to IFRS (cont'd)

D. Adjustments to IFRS (cont'd)

1. Balance sheet as at January 1, 2007 (cont'd)

	January 1, 2007			
	Israeli GAAP**	Israeli GAAP	Impact of transition to IFRS	IFRS
	NIS millions	$ millions*	$ millions	$ millions
Current liabilities				
Credit from banks and others	2,061	488	218	706
Trade payables	2,179	516	-	516
Provisions	171	49	-	***49
Other payables and credit balances, including derivatives	1,650	381	(5)	***376
Income taxes payable	307	73	-	73
Total current liabilities	6,368	1,507	213	1,720
Non-current liabilities				
Loans from banks and others	6,009	1,422	1	1,423
Provisions	106	25	-	25
Debentures	3,915	927	-	927
Debentures convertible into shares of the Corporation	1	-	-	-
Deferred taxes, net	1,704	403	(24)	***379
Employee benefits	1,206	285	134	419
Minority interest	3,583	850	(850)	-
Total non-current liabilities	16,524	3,912	(739)	3,173
Total liabilities	22,892	5,419	(526)	4,893
Shareholders' equity				
Share capital and premium	1,929	273	-	273
Capital reserves	(306)	-	5	5
Dividend proposed after the balance sheet date	248	59	(59)	-
Retained earnings	3,763	1,001	21	1,022
Total capital allocated to the Corporation's shareholders	5,634	1,333	(33)	1,300
Minority interest	-	-	816	816
Total shareholders' equity	5,634	1,333	783	2,116
Total liabilities and equity	28,526	6,752	257	7,009

* The data in millions of dollars represents the financial data based on generally accepted accounting principles in Israel if the functional currency pursuant to these principles was the dollar (see Note E.1).

** After restatement due to the initial adoption of new standards in Israel.

*** Reclassified.

Note 41 - Explanation Regarding the Effects of the Transition to IFRS (cont'd)

D. Adjustments to IFRS (cont'd)

2. Balance sheet as at December 31, 2007

	December 31, 2007			
	Israeli GAAP	Israeli GAAP*	Impact of transition to IFRS	IFRS
	NIS millions	$ millions	$ millions	$ millions
Current assets				
Cash and cash equivalents	1,996	519	-	519
Marketable securities	1,717	446	(3)	443
Short-term investments, deposits and loans	319	83	3	86
Trade receivables	6,769	1,760	5	***1,765
Other receivables and debit balances	1,730	450	(43)	**407
Income tax receivable	123	32	-	32
Inventory	8,093	2,081	(17)	2,064
Total current assets	20,747	5,371	(55)	*5,316
Long-term investments, loans and receivables				
Investments in associated companies	2,368	639	5	**644
Investments in other companies	145	36	-	36
Long-term deposits, loans and other debit balances, including derivatives	693	180	98	**278
Deferred taxes, net	84	22	11	**33
Non-current inventory	115	30	1	31
Property, plant and equipment	23,193	5,922	595	6,517
Intangible assets	2,448	635	106	**741
Total non-current assets	29,046	7,464	816	8,280
Total assets	49,793	12,835	761	13,596

Note 41 - Explanation Regarding the Effects of the Transition to IFRS (cont'd)

D. Adjustments to IFRS (cont'd)

2. Balance sheet as at December 31, 2008 (cont'd)

	December 31, 2008			
	Israeli GAAP	Israeli GAAP*	Impact of transition to IFRS	IFRS
	NIS millions	$ millions	$ millions	$ millions
Current liabilities				
Credit from banks and others	5,395	1,402	-	1,402
Trade payables	5,141	1,336	(15)	1,321
Provisions	208	54	15	**69
Other payables and credit balances, including derivatives	2,408	650	(13)	**637
Income tax payable	392	102	(21)	**81
Total current liabilities	13,626	3,544	(34)	3,510
Non-current liabilities				
Loans from banks and others	11,430	2,972	(32)	**2,940
Debentures	9,067	2,357	33	2,390
Provisions	142	37	(1)	**36
Deferred taxes, net	2,562	666	148	**814
Employee benefits	1,469	382	140	**522
Minority interest	5,746	1,460	(1,460)	-
Total non-current liabilities	30,416	7,874	(1,172)	6,702
Total liabilities	44,042	11,418	(1,206)	10,212
Shareholders' equity				
Share capital and premium	1,939	273	-	273
Capital reserves	(641)	42	15	57
Retained earnings	4,453	1,102	45	1,147
Total capital allocated to the Corporation's shareholders	5,751	1,417	60	1,477
Minority interest	-	-	1,907	1,907
Total shareholders' equity	5,751	1,417	1,967	3,384
Total liabilities and equity	49,793	12,835	761	13,596

* The data in millions of dollars represents the financial data based on generally accepted accounting principles in Israel if the functional currency pursuant to these principles was the dollar (see Note E.1).

Note 41 - Explanation Regarding the Effects of the Transition to IFRS (cont'd)

D. Adjustments to IFRS (cont'd)

3. Statement of income for the year ended December 31, 2007

	For the year ended December 31, 2007			
	Israeli GAAP	Israeli GAAP*	Impact of transition to IFRS	IFRS
	NIS millions	$ millions	$ millions	$ millions
Revenues	43,916	10,913	(3)	10,916
Cost of sales	36,460	9,036	29	9,012
Gross profit	7,456	1,877	(32)	1,904
Research and development expenses, net	161	39	-	39
Selling, transport and marketing expenses	2,454	601	(1)	600
Administrative and general expenses	1,489	344	32	376
Other expenses	-	-	21	21
Other income	-	-	(53)	(53)
Operating income	3,352	893	(31)	862
Financing expenses	771	349	173	**522
Financing income	-	-	(176)	**(176)
Financing expenses, net	771	349	(3)	346
Other income (expenses), net	(29)	(6)	6	-
Group's share in losses of associated companies, net	-	-	(23)	(23)
Income before taxes	2,552	538	(45)	493
Income tax	(573)	120	-	120
Income after taxes	1,979	418	(45)	373
Group's equity in the losses of affiliates, net	(97)	(24)	24	-
Minority interest in the net income of subsidiaries, net	(1,201)	(293)	293	-
Net earnings for the year	681	101	272	373
Allocated to:				
The shareholders				113
The minority interest				260
Net income for the year				373

* The data in millions of dollars represents the financial data based on generally accepted accounting principles in Israel if the functional currency pursuant to these principles was the dollar (see Note E.1).

** Reclassified.

Note 41 - Explanation Regarding the Effects of the Transition to IFRS (cont'd)

D. Adjustments to IFRS (cont'd)

4. Effect of the aforementioned adjustment on the retained earnings:

	January 1 2007	December 31 2007
	$ millions	$ millions
Employee benefits	(29)	(33)
Change in estimate of the useful lives of property, plant and equipment	12	-
Financial instruments	14	7
Investments in associated companies	1	-
Deferred taxes	(6)	(9)
Dividend proposed subsequent to the balance sheet date	-	59
Recording of negative goodwill to retained earnings	60	-
Other	(7)	(3)
Total adjustments to retained earnings	45	21

5. Adjustments to income:

	Year Ended December 31 2007
	$ millions
Net income based on Israeli GAAP	*101
Employee benefits	(6)
Change in estimate of the useful lives of property, plant and equipment	19
Financial instruments	3
Recording of minority interest in earnings to shareholders' equity	260
Other	(4)
Total adjustments	272
Income for the year in accordance with IFRS	373

* The data in millions of dollars represents the financial data based on generally accepted accounting principles in Israel if the functional currency pursuant to these principles was the dollar (see Note E.1).

Note 41 - Explanation Regarding the Effects of the Transition to IFRS (cont'd)

D. Adjustments to IFRS (cont'd)

6. Statement of cash flows

(1) Interest received and paid was classified as cash flows from current operating activities in accordance with Israeli GAAP. Pursuant to IFRS and based on the accounting policies adopted by the Corporation, interest received was classified as cash flows from investing activities and interest paid was classified as cash flows from financing activities.

(2) The impact of fluctuations in the currency exchange rate on the cash balances was reported as cash flows from current operating activities in accordance with Israeli GAAP. Pursuant to IFRS, the impact of fluctuations in the currency exchange rate on the cash balances was classified in a separate category.

(3) In accordance with Israeli GAAP, the securitization transaction was treated as a sale of financial assets as part of the "current activities" category. Pursuant to IFRS, the securitization transaction is treated as a financing transaction. Therefore, the cash flows in respect of the securitization transaction are classified as part of the financing activities whereas the cash flows from collection of the trade receivables are classified as part of the current operating activities.

There are no other significant differences between the statement of cash flows presented according to IFRS and the statement of cash flows presented according to Israeli GAAP.

E. Brief summary of main differences between Israeli GAAP and IFRS

1. Functional currency

Pursuant to generally accepted accounting principles in Israel, it was possible to determine a functional currency other than the shekel only in cases where most of the revenues were received and most of the assets were acquired in that currency. Under IFRS, in order to determine the functional currency the entity must consider, among others, the following factors:

a. The currency that primarily influences the sales' prices of the goods and services (generally this will be the currency in which the sales' prices of the goods and services are denominated and settled) and the currency of the country whose competitive and regulatory forces are the main factors determining the sales' prices of the goods and services.

b. The currency that primarily influences the labor, material and other costs involved with providing the goods and services (generally this will be the currency in which the sales' prices of the goods and services are denominated and settled).

c. In addition, there are other factors that can provide evidence as to the entity's functional currency, such as, the currency in which the sources of cash from the financing activities are produced and the currency in which the receipts from current operating activities are usually held.

Pursuant to Israeli GAAP, the Corporation's functional currency is the shekel, whereas in accordance with IFRS the Corporation's functional currency is the dollar.

Note 41 - Explanation Regarding the Effects of the Transition to IFRS (cont'd)

E. Brief summary of main differences between Israeli GAAP and IFRS (cont'd)

2. Employee benefits

IAS 19 provides the accounting treatment (recognition, measurement and disclosure) of employee benefits. Set forth below are the adjustments required for the transition from the accepted practice according to Israeli GAAP to implementation of the international standard.

In accordance with Israeli GAAP, the liability for employee severance benefits is measured on the basis of the number of years of service multiplied by the employee's latest monthly salary (one month's salary for each year worked), and the severance pay deposits against such liability are measured on the basis of their redemption value as at the balance sheet date. In addition, the liabilities for vacation and sick leave are calculated on the basis of estimates of utilization and redemption, respectively.

On the date of transition to IFRS, all the net liabilities in respect of post-retirement benefits of employees and other long-term benefit plans are measured in accordance with the provisions of IAS 19, "Employee Benefits". Pursuant to IAS 19, some of the Group's severance pay plans are defined benefit plans as defined in IAS 19. Measurement of the liability for employee severance benefits under the above-mentioned plans is made based on an actuarial estimate and takes into account, among other things, the future increase in employee salaries along with the rate of employee turnover. The measurement is made on the basis of discounting the anticipated future cash flows, using the interest rate of highly-rated government bonds. In addition, the severance pay deposits are measured according to their fair value on the basis of their present value after taking into account the expected future yield on the plan's assets.

To the best of the Group's knowledge, the subject of the discount interest rate is being studied and it is likely that it will be decided that in Israel the suitable discount interest rate is that based on corporate bonds. In this case, the data appearing in the Note above will change, the actuarial liability will decrease and the financing expenses for the current year relating to these liabilities will increase.

The capitalization rate for the Group companies operating in Israel is in accordance with the yield on Israeli government debentures.

Foreign subsidiaries have a liability to pay pension benefits to employees, which was calculated on the basis of an actuarial estimate, where under Israeli GAAP part of the actuarial gains and losses were not recognized in the financial statements in accordance with the "corridor" method. With respect to the subsidiaries in Israel, actuarial gains and losses are recorded in the statement of earnings as incurred.

The Group has chosen as its accounting policy one of the alternatives provided under IAS 19 for treating actuarial gains and losses. According to the alternative chosen, the actuarial gains and losses will be recognized immediately against an entry to the shareholders' equity (retained earnings).

Note 41 - Explanation Regarding the Effects of the Transition to IFRS (cont'd)

E. Brief summary of main differences between Israeli GAAP and IFRS (cont'd)

2. Employee benefits (cont'd)

The provisions for the accumulated entitlement of employees to compensation in respect of sick leave and vacation were calculated on a "first-in, first-out" basis, since sick leave and vacation days are utilized first from the entitlement transferred from prior years and only afterwards from the current year entitlement.

In the Managers' Insurance policies issued prior to 2004, the insurance companies and the Company agreed to transfer each year to the retirement benefits' component the real yield accumulated on the assets deposited in the severance pay component. Therefore, in respect of these Managers' Insurance policies, the assets included in the severance pay component that are transferred to the Company for the purpose of paying the employees upon their retirement will be lower.

In the financial statements according to IFRS, the Corporation measures the plan assets according to the nominal amount, while in each reporting period an expense will be recorded in respect of transferring the real yield of the severance pay component to the retirement benefits component.

Revenues and expenses included in accordance with Israeli GAAP in the "salaries and related expenses" category, are recorded under IFRS, partly with "salaries and related expenses" and partly in the "financing expenses" category. Included as part of the "financing expenses" category are, among other things, financing income and revaluation/erosion of the plan's assets.

3. Property, plant and equipment

a. International Accounting Standard, IAS 16, regarding "Fixed Assets", provides that the useful life of an asset shall be reviewed at least at the end of every financial year, and if the expectations are different from the prior estimates, the change is to be treated as a change in an accounting estimate, in accordance with international accounting standard, IAS 8, regarding "Accounting Policy, Changes in Accounting Estimates and Errors".

In October 2007, the Securities Authority published Decision 3-17 regarding "Change in the Useful Life of Fixed Assets (hereinafter – "the Authority's Decision"). The Authority's Decision applies to financial statements prepared in accordance with IFRS. In accordance with the Authority's Decision, a change may be made in the estimated useful life of an asset based on the Company's past experience with respect to such asset, in a case where solid and reliable evidence has been accumulated by the company that supports changing the estimate.

Based on opinions received (mostly internal opinions and one opinion from an external independent appraiser), the Group changed the estimate of the remaining useful life of the fixed assets reflecting an extension of the depreciation period as part of the financial statements prepared in accordance with IFRS, commencing from January 1, 2007.

Note 41 - Explanation Regarding the Effects of the Transition to IFRS (cont'd)

E. Brief summary of main differences between Israeli GAAP and IFRS (cont'd)

2. Employee benefits (cont'd)

a. (cont'd)

Based on the experience accumulated by the Group, the cost of assets that have been fully depreciated and are still used in manufacturing are significant. Furthermore, the Group has reexamined the useful life of the fixed assets compared with the industry in which it operates, the level of maintenance of the facilities and the functioning of the facilities over the years. According to this examination the remaining period of depreciation of the fixed assets is lower than the balance of the anticipated useful life of the facilities. On the basis of this assessment, the Group decided to change the estimate of the economic useful life of the fixed assets. The change in estimate is based on the experience accumulated by the Group and not on changes that have occurred in the assets or in the business environment. The previous estimate of the useful life of the Group's fixed assets was performed in 2002. The assessment was also based on the accumulated experience of the entity.

b. Based on the relief permitted by the provisions of IFRS 1, a subsidiary elected to measure fixed-asset items (land, buildings, machinery and equipment) based on their fair values as at January 1, 2007 and to use such fair value as the deemed cost on the Transition Date. The deemed cost is based on the opinion of an external expert. In addition, the useful lives of part of the assets were changed.

4. Securitization transactions

Certain Group subsidiaries entered into a securitization agreement according to which the companies sell part of their customer receivables to a foreign company that was incorporated for this purpose and that is not owned or controlled by the Group (hereinafter – "the Acquiring Company"). The Acquiring Company finances purchase of the receivables by means of a loan received from a financial entity unrelated to the Group that finances the loan from proceeds it receives from commercial paper it issues on the U.S. commercial paper market.

In accordance with Israeli GAAP, the securitization transaction executed by the Group meets the definition of a sale, and therefore the customer receivables included in the securitization transaction were eliminated in the consolidated financial statements.

The securitization transaction executed by the Group does not comply with the conditions for elimination of financial assets provided in IAS 39 regarding "Financial Instruments – Recognition and Measurement" since the Group did not transfer all the risks and rewards deriving from the customer receivables. Therefore, upon the transition to IFRS, the customer receivables included in the securitization transaction were restored in the consolidated balance sheet. On the other hand the amounts received from the Purchasing Company in the framework of the securitization transaction are recorded as financial liabilities in the "short-term credit" category, and are not offset against the balance of customer receivables.

Accordingly, in the transition to the international standards, there is an increase in the trade receivables an increase in the short-term credit category.

Note 41 - Explanation Regarding the Effects of the Transition to IFRS (cont'd)

E. Brief summary of main differences between Israeli GAAP and IFRS (cont'd)

5. Financial instruments

The Group uses financial instruments, including derivative financial instruments, in order to reduce exposure to currency and interest risks.

According to the accepted practice in Israel, the conditions for applying hedge accounting are based mainly on economic criteria. In addition, under certain circumstances, derivative financial instruments used for hedging purposes are not recognized in the balance sheet and are not measured according to fair value.

International standard IAS 39 provides that in order for a transaction in financial instruments to be considered a hedging transaction a number of conditions must be fulfilled, including conditions regarding designation of the instrument, compliance with strict documentation requirements and an anticipation of high hedge effectiveness at the beginning and during the entire hedge. Changes in the fair value of a financial instrument designated as a hedge of an asset or liability is recognized as income or expense concurrently with recognizing the changes in the fair value of the hedged asset or liability that relate to the hedged risk. In addition, pursuant to the international standards, changes in the fair value of derivative financial instruments that do not meet the criteria for use of hedge accounting are recorded on the statement of income as incurred.

Some of the transactions the Group executes in financial instruments for purposes of reducing exposure, as noted above, do not meet the hedge conditions provided in the international standards and, therefore, upon the transition to IFRS the said financial instruments are measured according to fair value and the changes in their fair value are immediately recognized as income or expense.

Furthermore, loans to employees of the Corporation and the subsidiaries, not on market terms, were adjusted to fair value in the transition to IFRS.

6. Minority interest

Pursuant to Israeli GAAP, the minority interest is presented in the balance sheet outside of the shareholders' equity section, whereas under IFRS the minority interest is presented in the balance sheet as part of the shareholders' equity section.

In addition, in accordance with Israeli GAAP, the minority interest in the results of subsidiaries is included as part of the results of operations in the statement of earnings, whereas under IFRS the minority interest, as stated, is not part of the statement of earnings but, rather, it is presented as part of distribution of the income between the holders of the Corporation's equity and the minority shareholders.

Note 41 - Explanation Regarding the Effects of the Transition to IFRS (cont'd)

E. Brief summary of main differences between Israeli GAAP and IFRS (cont'd)

7. Rights in land leased from the Israel Lands Administration and mining rights

Based on the lease agreements with the Israel Lands Administration, lease rights in lands have been granted to subsidiaries for a period of 49 years (some with an option to extend) that are scheduled to end in different periods. The said lease agreements do not provide the company rights to acquire the full rights in the real estate and, in some cases, the subsidiaries were not granted rights to extend the lease period.

In accordance with Israeli GAAP, amounts paid in respect of lease rights in lands were presented with the Group's fixed assets and the amounts paid were amortized over the lease period.

Pursuant to international standard IAS 17, regarding "Leases", a lease of land that does not include an option to acquire the full rights in the real estate at the end of the lease period is to be classified as an operating lease and, accordingly, amounts paid in respect of leases from the Israel Lands Administration constitute prepaid lease fees. In accordance with IFRS reporting, the lease fees, as stated, are to be presented in the "prepaid expenses in respect of operating leases" category and not in the "property, plant and equipment" category.

In addition, the financial statements of a subsidiary included as part of the "property, plant and equipment" category, costs in respect of mining rights in Spain. A portion of these rights is valid up to 2037 whereas the balance is in effect up to 2067. As part of adjustment of the financial statements based on IFRS, the mining rights were classified from "property, plant and equipment" to the "intangible assets" category.

8. Deferred taxes

Pursuant to Israeli GAAP, deferred tax assets were classified as current assets or non-current assets according to the classification of the assets for which they were created. In accordance with IFRS, deferred tax assets are classified as non-current assets even if it is anticipated that they will be realized in the short term. Therefore, upon the transition to IFRS, short-term deferred taxes as at the Transition Date and as at December 31, 2007 were reclassified from the "other receivables" category in the "current assets" section to the "deferred tax assets" category in the "non-current assets" section, and short-term deferred taxes as at transition date and December 31, 2007 were reclassified from the item of other payables under current liabilities to the item of deferred tax liabilities under non-current liabilities.

9. Reserve from translation differences of foreign activities

The Corporation elected to implement the relief provision offered by IFRS 1 whereby the entire balance of the "reserve for translation differences of foreign activities" as at the Transition Date may be reclassified to retained earnings.

Note 41 - Explanation Regarding the Effects of the Transition to IFRS (cont'd)

10. Classification of other income/expenses

According to the accepted practice in Israel, gains and losses from sales of fixed assets, gains and losses from actuarial changes and expenses in respect of early retirement of employees were not presented in the consolidated financial statements as part of the operating income, but are presented under "other income/expenses". Under IFRS, these items are to be included in the operating profit or gross profit, as applicable.

11. Concession agreements

A proportionately consolidated company has concession agreements with government entities under which the company constructed desalination facilities. Furthermore, in accordance with the agreements the company operates the desalination facilities and sells the desalinized water to the State in exchange for fixed and variable payments, as provided in the concession agreements. In accordance with Israeli GAAP (as from January 1, 2006) and in accordance with IFRS, as part of concession-based agreements, a financial asset reflecting the customer's debt will be recognized in the financial statements where the said financial asset bears interest. In accordance with Israeli GAAP, the interest on the financial asset is fixed based on use of the weighted average cost of capital (WACC) of the project. In addition, recognition of the financial asset starts from the date the facility was placed in service. Under IFRS (IFRIC 12), the interest rate on the financial asset will be set based on the borrower's risk free rate of interest plus an interest rate reflecting the risk involved with constructing and operating the facility. Also, recognition of the financial asset will start from the commencement date of construction of the facility.

12. Dividend declared subsequent to the balance sheet date

In accordance with Israeli GAAP, a dividend declared subsequent to the balance sheet date and up to the approval date the financial statements was presented in the "shareholders' equity" section as a reduction in the "retained earnings" and an increase in the category "dividend declared subsequent to the balance sheet date".

13. Measurement of financial instruments available for sale

Unlike Israeli GAAP, in accordance with IFRS financial instruments classified as available for sale are recognized as assets at fair value with the changes in fair value during the period being included directly in shareholders' equity and not to the statement of earnings.

14. Business combinations

a. In accordance with Israeli GAAP, a liability in respect of employee benefits was recognized following a structural change in a company consolidated for the first time, against goodwill, as at the date of acquisition.

   In accordance with IFRS, the Corporation is required to recognize a liability for a structural change as a current expense and not as part of the cost allocation of a business combination, when the financial statements of the acquired company did not include on the acquisition date a liability in accordance with IAS 37 regarding provisions, contingent liabilities and contingent assets.

Note 41 - Explanation Regarding the Effects of the Transition to IFRS (cont'd)

14. Business combinations (cont'd)

b. As stated in Note 7F1a, on February 21, 2008, the Corporation acquired 36.8% of the shares of ORL and commencing from that date and up to June 30, 2007 the Corporation acquired and additional 8.3% of ORL's shares. On June 28, 2007, the Corporation received the control permit with respect to ORL. Pursuant to Israeli GAAP, until the control permit was received the investment in ORL was presented at cost. Commencing from the date the control permit was received, ORL's financial statements were consolidated with those of the Corporation. The excess cost was calculated as at June 30, 2007 and was allocated mainly to fixed assets and deferred taxes. In calculation of the excess cost, negative goodwill was created, which was deducted first from the intangible assets and afterwards from the rest of the net non-monetary assets on a proportional basis. Under IFRS, in accordance with the directives regarding the accounting treatment of business combinations executed in stages, all of ORL's identified assets and liabilities were presented at their fair values on the date of receipt of control in ORL. The difference created as a result of revaluation of prior acquisitions on the acquisition date of the control is not material. The balance of the negative goodwill on the dates of the original acquisitions and the Corporation's share in ORL's income in the period up to the date control of ORL was obtained were recorded in the retained earnings.

c. The Corporation elected the relief provided in IFRS 1 relating to business combinations whereby it applies the provisions of IFRS 3 only with respect to business combinations taking place after January 1, 2007 (the transition date to IFRS). Regarding the acquisition of ORL, as stated above, pursuant to Israeli GAAP, the acquisition cost was allocated based on the fair values of the assets and liabilities on the acquisition date. The negative goodwill was deducted first from the intangible assets and afterwards from the rest of the net non-monetary assets on a proportional basis. The minority interest was calculated based on the minority's share in the carrying value of ORL's assets and liabilities on that date. Pursuant to the international standards, ORL's assets and liabilities are presented in the consolidated balance sheet on the acquisition date at their full fair values. The minority interest on the acquisition date is calculated based on the minority's share in the full fair values of ORL's identified assets and liabilities as at that date.

In addition, pursuant to IFRS, the minority interest was classified as part the shareholders' equity.

15. Embedded derivatives

In accordance with Israeli GAAP embedded derivatives do not have to be separated from hybrid contracts. In accordance with IFRS, embedded derivatives are to be separated from hybrid instruments under certain circumstances and be presented at fair value on every balance sheet date, with the changes in fair value being recognized as income or expense for each reporting period.

Note 41 - Explanation Regarding the Effects of the Transition to IFRS (cont'd)

16. Financing income and expenses

In accordance with Israeli GAAP, financing expenses and income were presented on a net basis in the statement of income. In accordance with IFRS, financing expenses and financing income are presented separately in the statement of income.

17. The accounting treatment of index-linked financial instruments

A. Treatment of acquisition of additional rights from the minority after a business combination

Pursuant to Israeli GAAP, the Corporation allocated excess cost created on an acquisition of additional rights from the minority in a subsidiary to tangible and intangible assets if their fair values exceed their carrying values. The unallocated balance was recorded to goodwill. Absent specific provisions in IFRS for treating share acquisitions from the minority interest in subsidiaries, the Corporation elected to record the entire excess cost created upon acquisitions of shares from the minority interest in subsidiaries to goodwill and not to specifically allocate it to identified assets since an initial acquisition of control is not involved and since pursuant to IFRS upon initial acquisition of control all the identified assets and identified liabilities are already revalued to their fair values on that date.

B. Treatment of sale of shares to the minority while maintaining control

Pursuant to Israeli GAAP, the Corporation recognized income from the sale equal to the difference between the proceeds received and book value of portion sold. Absent specific provisions in IFRS for treating transactions as stated, the Corporation applied a similar treatment, consistent with the treatment it applied to acquisitions of rights from the minority (increase in rate of holdings while maintaining control). In addition, this alternative more properly reflects the nature of the current activities of the related company upon acquisition of holdings in different companies and the sale thereof.

Appendix A - Condensed Data in Nominal Values for Tax Purposes

A. Accounting principles used in presentation of data in nominal historical values for tax purposes:

1. These financial statements were prepared on the basis of historical cost.
2. These financial statements include data for the Corporation only, without the presentation of consolidated financial statements as required by generally accepted accounting principles.
3. The investment in investee companies is presented based on the equity method in historical values as at December 31, 2003, without equity income as required by generally accepted accounting principles.

B. Balance sheets

	2008	2007
	NIS millions	NIS millions
Current assets		
Cash and cash equivalents	**820**	113
Marketable securities	**–**	18
Short-term loans	**501**	270
Other receivables and debit balances	**83**	38
	1,404	439
Investments		
Investments in investee companies	**7,592**	8,601
Investments in other companies	**31**	5
	7,623	8,606
	9,027	9,045
Current liabilities		
Credit from bank and others	**381**	922
Other payables and credit balances	**113**	121
	494	1,043
Long-term liabilities		
Liabilities to banks and others	**2,153**	1,717
Debentures	**5,094**	4,321
Debentures convertible into shares of the Corporation	**–**	1
	7,247	6,039
Shareholders' equity	**1,286**	1,963
	9,027	9,045

Appendix A - Condensed Data in Nominal Values for Tax Purposes (cont'd)

C. Statements of earnings

	2008	2007	2006
	NIS millions	NIS millions	NIS millions
Income			
Financing income, net	**–**	–	(48)
Other expenses (income), net	**7**	7	(211)
	7	7	(259)
Expenses			
Financing expenses, net	**474**	138	–
General and administrative expenses	**17**	12	12
	491	150	12
Net income (loss) for the year	**(498)**	(157)	247

D. Statements of shareholders' equity

	Share capital	Capital reserves	Company shares held by a subsidiary*	Dividend proposed after the balance sheet date	Retained earnings	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Balance as at December 31, 2006	7	1,381	-	238	766	2,392
Changes in 2006:						
Net income	-	-	-	-	247	247
Dividend	-	-	-	(238)	(59)	(297)
Dividend proposed after the balance sheet date	-	-	-	248	(248)	-
Conversion of debentures into shares	-	9	-	-	-	9
Shares issued to employees	-	7	-	-	-	7
Balance as at December 31, 2006	7	1,397	-	248	706	2,358
Changes in 2007:						
Net loss	-	-	-	-	(157)	(157)
Dividend	-	-	-	(248)	-	(248)
Shares issued to employees	-	10	-	-	-	10
Balance as at December 31, 2007	7	1,407	-	-	549	1,963
Changes in 2008:						
Net loss	-	-	-	-	**(498)**	**(498)**
Dividend	-	-	-	-	**(179)**	**(179)**
Balance as at December 31, 2008	**7**	**1,407**	**-**	**-**	**(128)**	**1,286**

* Amount less than NIS 1 million.

Appendix B – List of investee companies as at December 31, 2008

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Israel Corporation Ltd.	ZIM Israel Navigation Co. Ltd.	99.1	99.1	fully consolidated subsidiary
	Israel Chemicals Ltd.	*28.7	28.7	fully consolidated subsidiary
	Elram Housing Corporation – limited partnership	*49.0	49.0	proportionately consolidated partnership
	H.L. Management and Consultants (1986) Ltd.	100.0	100.0	fully consolidated subsidiary
	H.L. (Holdings – ICL) Ltd.	100.0	100.0	fully consolidated subsidiary
	H.L. Acquisitions ICL (1998), Ltd.	100.0	100.0	fully consolidated subsidiary
	H.L. (Kislev, 1998), Ltd.	100.0	100.0	fully consolidated subsidiary
	Orchot Cochavim, Ltd.	100.0	100.0	fully consolidated subsidiary
	Israel Corporation Trust Company Ltd.	100.0	100.0	fully consolidated subsidiary
	Tower Semiconductor Ltd. ***	8.9	8.9	associate
	Kol 1 Investments in Communications (H.L.) Ltd. (in voluntary liquidation)	100.0	100.0	fully consolidated subsidiary
	Sorbie Europe B.V. Netherlands	62.2	62.2	fully consolidated subsidiary
	Sorbie Holdings Ltd. (in voluntary liquidation)	62.2	62.2	fully consolidated subsidiary
	Mars Information Products Group Ltd.	50.0	50.0	proportionately consolidated subsidiary
	Udi International (1994) Ltd.	100.0	100.0	fully consolidated subsidiary
	Quantum (2007) LLC	100.0	100.0	fully consolidated subsidiary
	Oil Refineries Ltd.**	45.1	45.1	fully consolidated subsidiary
	I.C. Green Energy Ltd.	100.0	100.0	fully consolidated subsidiary
	Inkia Energy Ltd.	100.0	100.0	fully consolidated subsidiary
	Better Place LLC	33.0	33.0	associate
	ASIC Investments Inc.	50.0	50.0	proportionately consolidated subsidiary
ZIM Integrated Shipping Services Ltd.	Overseas Freighters Shipping Inc.	40.0	40.0	associate
	Thai Star Shipping Co.	49.0	49.0	associate
	Overseas Warehouse Services Ltd.	50.0	50.0	proportionately consolidated subsidiary
	Negev Star Ltd.	50.0	50.0	associate
	Star Shipping Portugal Ltd.	50.0	50.0	associate
	ZIM–Rom Shipping Ltd.	100.0	100.0	associate
	T.Y.M. Transport Inter Modal	50.0	50.0	associate
	Lagos & Niger Shipping Agencies Ltd. Nigeria	97.0	97.0	fully consolidated subsidiary
	Joint Transport International Services Ltd.	100.0	100.0	fully consolidated subsidiary
	Alhouty Yam Ltd.	100.0	100.0	fully consolidated subsidiary
	ZIM Germany	100.0	100.0	fully consolidated subsidiary
	ZIM Netherlands	100.0	100.0	fully consolidated subsidiary
	Gal Marine Ltd.	100.0	100.0	fully consolidated subsidiary
	ZIM Australia	100.0	100.0	fully consolidated subsidiary
	M. Dizengoff & Co. Ltd.	100.0	100.0	fully consolidated subsidiary
	ZIM Integrated Shipping Services Hellas	100.0	100.0	fully consolidated subsidiary
	Hellastir Maritime	100.0	100.0	fully consolidated subsidiary
	ZIM France	100.0	100.0	fully consolidated subsidiary
	ZIM Do Brazil Ltd.	100.0	100.0	fully consolidated subsidiary
	ZIM Belgium	100.0	100.0	fully consolidated subsidiary
	ZIM Kenya	100.0	100.0	fully consolidated subsidiary
	Star Shipping Agencies (Singapore)	50.0	50.0	associate
	ZLN Filuet Switzerland	51.0	51.0	fully consolidated subsidiary
	ZLN S.A. Switzerland	100.0	100.0	fully consolidated subsidiary
	ZIM Ports 2006	100.0	100.0	fully consolidated subsidiary
	ZLN Russia	51.0	51.0	fully consolidated subsidiary
	Sela Technology Co. Ltd.	100.0	100.0	fully consolidated subsidiary

* The company is held by other Group Companies.
** The company is traded on the Tel-Aviv Stock Exchange
*** The company is traded on the Tel-Aviv Stock Exchange and on the NASDAQ.

Appendix B – List of investee companies as at December 31, 2008

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
ZIM Integrated Shipping Services Ltd. (cont.)	Stellhaven Expeditiebedrijf NV	100.0	100.0	fully consolidated subsidiary
	ZIM South Africa	100.0	100.0	fully consolidated subsidiary
	ZIM America (Zaisco)	100.0	100.0	fully consolidated subsidiary
	ZIM Integrated Shipping Serives (Canada)	100.0	100.0	fully consolidated subsidiary
	Carib Star Shipping Limited	100.0	100.0	associate
	Ramon Inter. Insurance Brokers Ltd.	100.0	100.0	fully consolidated subsidiary
	Fartop	50.0	50.0	associate
	Pacific Sun	50.0	50.0	associate
	Jamaica Container Repair Services Ltd.	100.0	100.0	fully consolidated subsidiary
	ZIM UK	50.0	50.0	fully consolidated subsidiary
	Sun Cypress Shipping Co. Ltd.	80.0	80.0	fully consolidated subsidiary
	Star Shipping Argentina S.A.	50.0	50.0	associate
	ZIM Integrated Shipping Services (China)	100.0	100.0	fully consolidated subsidiary
	Intermodal Shipping Agencies Ghana	50.0	50.0	associate
	Intermodal Shipping Agencies (Benin)	50.0	50.0	associate
	Star Lanka Shipping (Private) Ltd.	40.0	40.0	associate
	ZIM Tanzania	100.0	100.0	fully consolidated subsidiary
	ZIM Logistic (China) Ltd.	100.0	100.0	fully consolidated subsidiary
	ZIM Italia S.R.L.U.	100.0	100.0	associate
	BelZIM (Holdings) A/S	50.0	50.0	associate
	Belstar A/S	50.0	50.0	associate
	Qingdao Lu Hai Int. Logistic Co. Ltd.	32.0	32.0	associate
	ZIM Japan	100.0	100.0	fully consolidated subsidiary
	Russian Container	50.0	50.0	associate
	MPL Multi Purpose Logistics Ltd.	50.0	50.0	associate
	Zino Star Shanghai	49.0	49.0	associate
	Star World Aviation (S) PTE. Ltd.	100.0	100.0	fully consolidated subsidiary
	Eastern Star Co. Ltd.	30.0	30.0	associate
	Arebee Star	100.0	100.0	fully consolidated subsidiary
	ZIM India	100.0	100.0	fully consolidated subsidiary
	Star India	100.0	100.0	fully consolidated subsidiary
	Xiamen Star Logistics Co.	50.0	50.0	associate
	Tanjin Harvest International Logistics	51.0	51.0	fully consolidated subsidiary
	ZIM Logistics (H.K.) Company Limited	100.0	100.0	fully consolidated subsidiary
	Container Star International (Qingdao)	55.0	55.0	fully consolidated subsidiary
	ZIM Korea	85.0	85.0	associate
	Tin-Can Container Terminal Ltd.	47.5	47.5	associate
	ZIM Hong Kong	100.0	100.0	fully consolidated subsidiary
	C.X.I.C. Hutznau International Container	25.0	25.0	associate
	Shanghai Haili Container Transportation	49.0	49.0	associate
	ZIM Ukraine	100.0	100.0	fully consolidated subsidiary
	ZIM Poland	100.0	100.0	fully consolidated subsidiary
	ZIM Ports & Logistics	100.0	100.0	fully consolidated subsidiary
	Jamaica Free Zone Development	25.0	25.0	associate
	Kingston Logistics Center	85.0	85.0	fully consolidated subsidiary
	U.T.I.	25.0	25.0	associate
	ZIM Georgia	51.0	51.0	fully consolidated subsidiary
	American West	100.0	100.0	associate
	ZIM Taiwan	100.0	100.0	fully consolidated subsidiary
	ZIM Vietnam	51.0	51.0	associate
	Antwerp Gateway	20.0	20.0	fully consolidated subsidiary
	ZLA India	100.0	100.0	associate
	Interlog	75.0	75.0	fully consolidated subsidiary
	Omega Depot	51.0	51.0	fully consolidated subsidiary
	Tarragona	40.0	40.0	associate
	ZIM Integrated Shipping Services Hungary	100.0	100.0	fully consolidated subsidiary
	Martini Island Container Limited	51.0	51.0	fully consolidated subsidiary

Appendix B – List of investee companies as at December 31, 2008

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Israel Chemicals Ltd.	Dead Sea Works Ltd.	100.0	100.0	fully consolidated subsidiary
	Dead Sea Bromine Company Ltd.	100.0	100.0	fully consolidated subsidiary
	Rotem Amfert Negev Ltd.	100.0	100.0	fully consolidated subsidiary
	Dead Sea Periclase Ltd.	100.0	100.0	fully consolidated subsidiary
	Mifalei Tovala Ltd.	100.0	100.0	fully consolidated subsidiary
	Rotem Amfert Negev B.V., The Netherlands	*32.6	32.6	fully consolidated subsidiary
	I.D.E. Technologies Ltd.	50.0	50.0	proportionately consolidated subsidiary
	ICL Financing and Issuing Ltd.	100.0	100.0	fully consolidated subsidiary
	Ferson Chemicals Ltd.	100.0	100.0	fully consolidated subsidiary
	ICL Fine Chemicals Ltd.	100.0	100.0	fully consolidated subsidiary
	P.A.M.A. (Energy Resources Development) Ltd.	*25.0	25.0	associate (inactive)
	Dead Sea Magnesium Ltd.	65.0	66.6	fully consolidated subsidiary
	ICL Finance B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	ICL Finance Inc. U.S.A.	100.0	100.0	fully consolidated subsidiary
	Twincap Forsakrings A.B., Sweden	100.0	100.0	fully consolidated subsidiary
Dead Sea Works Ltd.	ICL Fertilizers – Partnership	*50.0	50.0	fully consolidated subsidiary
	Ashli Chemicals Ltd., England	100.0	100.0	fully consolidated subsidiary (inactive)
	Potash Technology Industries Ltd.	100.0	100.0	fully consolidated subsidiary (inactive)
	Ashli Chemicals (Holland) B.V., Israel	100.0	100.0	fully consolidated subsidiary
	Cleveland Potash Ltd. (CPL), U.K.	*75.0	75.0	fully consolidated subsidiary
Ashli Chemicals Ltd., England	Y.H.M.S. Investment Establishment, Liechtenstein	100.0	100.0	fully consolidated subsidiary (inactive)
Ashli Chemicals (Holland) B.V. Israel	Cleveland Potash Ltd. UK	*25.0	25.0	fully consolidated subsidiary
Y.H.M.S. Investments Establishment, Liechtenstein	Cogepotasse Ltd. Belgium	8.8	8.8	inactive
Cleveland Potash Ltd. U.K	Constantine & Company (Export) Limited, UK	50.0	50.0	proportionately consolidated subsidiary (inactive)
	ISL Iberia Ltd. UK	100.0	100.0	fully consolidated subsidiary
	ISL Iberia Ltd. Spain	100.0	100.0	fully consolidated subsidiary
ISL Iberia Ltd. Spain	Iberpotash S.A. Spain	100.0	100.0	fully consolidated subsidiary
Iberpotash S.A. Spain	Trafico De Mercancias S.A., Spain	100.0	100.0	fully consolidated subsidiary
Dead Sea Bromine Company Ltd.	Bromine Compounds Ltd.	100.0	100.0	fully consolidated subsidiary
	ICL IP Eurobrom B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	Tami (IMI) Investment for R&D Ltd. Israel	100.0	100.0	fully consolidated subsidiary
	ICL IP America Inc. USA	100.0	100.0	fully consolidated subsidiary
	ICL IP Ltd. Japan	100.0	100.0	fully consolidated subsidiary
	Landchem Ltd., South Africa	100.0	100.0	fully consolidated subsidiary
	Bromine and Chemicals Limited, England	100.0	100.0	fully consolidated subsidiary
	Euro Clearon Netherlands B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	Dead Sea Periclase Fused Products – partnership	*99.0	99.0	fully consolidated subsidiary

* The investee is also held by other Group companies.

Appendix B – List of investee companies as at December 31, 2008

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Israel Chemicals Ltd. (cont.)				
Bromine Compounds Ltd.	Tetrabrom Technologies Ltd.	*50.0	50.0	proportionately consolidated subsidiary
	Chemada Fine Chemicals Ltd.	*26.0	26.0	associate
	Bromine Compounds Marketing (2002) Ltd., Israel	100.0	100.0	fully consolidated subsidiary
	Dead Sea Periclase Fused Products – registered partnership in Israel	*1.0	1.0	consolidated partnership
ICL IP Eurobrom B.V. The Netherlands	ICL IP Terneuzen B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	Societe Pour le Traitment des sols et L'alimentation Animale SA France	100.0	100.0	fully consolidated subsidiary
	Bromchemie Holdings B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	Bromisia Industry and Commerce Ltd., Brazil	*90.9	90.9	fully consolidated subsidiary
	L.Y.G.D.S.B., China	60.0	60.0	fully consolidated subsidiary
	Transbrom (Europe) B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	Sinobrom, China	75.0	75.0	proportionately consolidated subsidiary
	Rotem Amfert Negev B.V., The Netherlands	*67.4	67.4	fully consolidated subsidiary
	Eurobrom Sucursal En Espania (branch), Spain	100	100	fully consolidated subsidiary
Rotem Amfert Negev B.V., The Netherlands	Eurocil Holding B.V. the Netherlands	*0.0	49.9	fully consolidated subsidiary
Tami (IMI) Institute for R&D Ltd. Israel	Potassium Nirate Ltd., Israel	50.0	50.0	proportionately consolidated subsidiary
	Novetide Ltd. Israel	50.0	50.0	proportionately consolidated subsidiary
	Magsens Ltd., Israel	22.2	22.2	proportionately consolidated subsidiary
ICL IP America Inc., USA	Hy–Yield Inc. U.S.A.	100.0	100.0	fully consolidated subsidiary
	Hy–Yield Bromine Inc. U.S.A.	80.0	80.0	fully consolidated subsidiary
	Rotem B.K.G LLC, U.S.A.	100.0	100.0	fully consolidated subsidiary
ICL IP Tranuzen B.V., The Netherlands	Bromusia Industry and Trade Ltd. Brazil	*9.1	9.1	fully consolidated subsidiary
Rotem Amfert Negev Ltd.	I.C.L. Fertilizers	*50.0	50.0	fully consolidated subsidiary
	Eurocil Holding B.V., The Netherlands	*100.0	50.1	fully consolidated subsidiary
	Negev Star Ltd.	51.0	51.0	fully consolidated subsidiary
	Edom Mining and Development Ltd.	100.0	100.0	fully consolidated subsidiary
	Agro-Vant, Israel	25.25	25.25	associate
	Fertilizers and Chemicals Ltd.	100.0	100.0	fully consolidated subsidiary
	Zuari Rotem Specialty Fertilizers Ltd., India	50.0	50.0	fully consolidated subsidiary
Edom Mining and Development Ltd.	Keter Tovala Ltd., Israel	100.0	100.0	fully consolidated subsidiary
Fertilizers and Chemicals Ltd.	Industrial Chemical Equipment Ltd., Israel	100.0	100.0	fully consolidated subsidiary
	Revivim in the Bay Water Enivronment Ltd., Isr.	100.0	100.0	fully consolidated subsidiary
	Agriphuzia – Israel	*49.5	49.5	consolidated partnership
	F. and C. Licorice Ltd., Israel	10.0	10.0	associate
Industrial Chemical Equipment Ltd., Israel	Agripo Management Services Ltd.	50.0	50.0	fully consolidated subsidiary

* The investee is also held by other Group companies.

Appendix B – List of investee companies as at December 31, 2008

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Israel Chemicals Ltd. (cont.)				
Agripo Management Services Ltd.	Agriphuzia – Israel	*1.0	1.0	consolidated partnership
Eurocil Holding B.V., The Netherlands	Rotem Holding GMBH, Germany	*10.0	10.0	fully consolidated subsidiary
	I.C.L. F.E. Potash B.V., The Netherlands	100.0	100.0	proportionately consolidated subsidiary
	Amsterdam Fertilizers B.V. The Netherlands	100.0	100.0	fully consolidated subsidiary
Pekafert B.V., The Netherlands	Eurocil Luxembourg S.A. Luxembourg	100.0	100.0	fully consolidated subsidiary
ICL Brazil Ltd.,	FosBrazil S.A., Brazil	*44.0	44.0	associate
Eurocil Luxembourg S.A	Eurocil Luxembourg S.A – Swiss Finance Branch Switzerland	100.0	100.0	fully consolidated subsidiary
	Anti-Germ Deutschland G.M.B.H. Germany	100.0	100.0	fully consolidated subsidiary
	Anti-Germ Austria G.M.B.H., Austria	100.0	100.0	fully consolidated subsidiary
	Penngar S.A.S., France	100.0	100.0	fully consolidated subsidiary
	Speciality Technologies Europe B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	Euro Clearon B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
Euro Clearon B.V. The Netherlands	Clearon Holdings Inc., USA	100.0	100.0	fully consolidated subsidiary
I.C.L. F.A. Potash BV. The Netherlands	Florett S.A.	85.0	85.0	fully consolidated subsidiary
Clearon Holdings Inc., U.S.A	Clearon Corp., U.S.A	100.0	100.0	fully consolidated subsidiary
Clearon Corp., U.S.A	Clearon Technologies, U.S.A	100.0	100.0	fully consolidated subsidiary
Anti-Germ Austria G.M.B.H. Austria	Anti-Germ CZ S.R.O. Czech Republic	100.0	100.0	fully consolidated subsidiary
	OAG Hungary Kft., Hungary	100.0	100.0	fully consolidated subsidiary
Penngar S.A.S., France	Penngar Hispania SL, Spain	100.0	100.0	fully consolidated subsidiary
Speciality Technologies Europe B.V. Holland	Scora S.A. France	100.0	100.0	fully consolidated subsidiary

* The investee is also held by other Group companies.

Appendix B – List of investee companies as at December 31, 2008

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Israel Chemicals Ltd. (cont.)				
Rotem Holding G.M.B.H., Germany	B.K. Giulini Chemie GmbH, Germany	100.0	100.0	fully consolidated subsidiary
	Fibrisol Service Ltd., Great Britain	100.0	100.0	fully consolidated subsidiary
	Fibrisol Australia P.T.Y. Ltd.	100.0	100.0	fully consolidated subsidiary
	Sofima S.A.S., France	100.0	100.0	fully consolidated subsidiary
	B.K. Giulini Argentina S.A., Argentina	95.0	95.0	fully consolidated subsidiary
	Shanghai Tari International Ltd., China	51.0	51.0	fully consolidated subsidiary
	Yunnan B.K. Giulini Qunli Phosphate Co. Ltd., China	60.0	60.0	fully consolidated subsidiary
	Fibrisol Muscalla GmbH, Germany	*34.65	34.65	fully consolidated subsidiary
	B.K. Giulini Polska Sp. z.o.o. Poland	*95.0	95.0	fully consolidated subsidiary
	B.K. Giulini Japan Ltd., Japan	100.0	100.0	fully consolidated subsidiary
	B.K. Giulini Leather Chemistry Co. Ltd. Hong Kong, China	100.0	100.0	fully consolidated subsidiary
	B.K.G. Parnes SAS France	100.0	100.0	fully consolidated subsidiary
	B.K.G. Personal Care Co., Ltd. Hong Kong	100.0	100.0	fully consolidated subsidiary
	ICL Performance Products Holding Inc.	100.0	100.0	fully consolidated subsidiary
	Flexotex GmbH, Germany	100.0	100.0	fully consolidated subsidiary
	Jiangyin Rhenoflex Performance Products China	100.0	100.0	fully consolidated subsidiary
	B.K.G. Performance Products Jiangyin Co. China	100.0	100.0	fully consolidated subsidiary
	ICL Performance Products Finance Inc. USA	100.0	100.0	fully consolidated subsidiary
	B.K. Giulini Specialities Private Limited, India	51.0	51.0	fully consolidated subsidiary
	Turris Ashkuranz, GmbH	100.0	100.0	fully consolidated subsidiary
	I.C.L. Biogamba SAS, France	100.0	100.0	fully consolidated subsidiary
	I.C.L. A.P. Bitterfeld GmbH Germany	100.0	100.0	fully consolidated subsidiary
	Supresta Verwaltungs GmbH, Germany	100.0	100.0	fully consolidated subsidiary
BK Giulini Leather Chemistry Ltd. Hong Kong	BK Giulini Leather Chemistry Ltd. China	100.0	100.0	fully consolidated subsidiary
Flexotex G.M.B.H., Germany	BKG Finance GmbH	100.0	100.0	fully consolidated subsidiary
	BKG Sup Finance GmbH	100.0	100.0	fully consolidated subsidiary
ICL Performance Products Finance Inc., USA	Phosphorus Derivatives Inc. USA	100.0	100.0	fully consolidated subsidiary
	ICL Performance Products Inc., USA	100.0	100.0	fully consolidated subsidiary
	ICLI Supresta Inc. USA	100.0	100.0	fully consolidated subsidiary
ICL Performance Products Inc., USA	ICL Performance Products LLC, USA	100.0	100.0	fully consolidated subsidiary
	ICL Performance LP	100.0	100.0	fully consolidated subsidiary
	B.K. Giulini Corporation Simi Valley, USA	100.0	100.0	fully consolidated subsidiary
	ICL Performance Products Canada	100.0	100.0	fully consolidated subsidiary
BKG Personal Care, Hong Kong	BKG Personal Care Ltd. China	100.0	100.0	fully consolidated subsidiary
BKG Puriphos B.V., The Netherlands	ICL Asia Ltd., Hong Kong	100.0	100.0	fully consolidated subsidiary

* The investee is also held by other Group companies.

Appendix B – List of investee companies as at December 31, 2008

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Israel Chemicals Ltd. (cont.)				
ICL Asia Ltd., Hong Kong	ARM Ltd., Hong Kong	100.0	100.0	fully consolidated subsidiary
	ICL Asia Shanghai Representative, China	100.0	100.0	fully consolidated subsidiary
	ICL Fertilizers (India) Private Ltd., India	100.0	100.0	fully consolidated subsidiary
	Jiaxing I.C.L. Chemical, China	100.0	100.0	fully consolidated subsidiary
	Zhangjiagang F.T.Z. ICL Trading Co. China	100.0	100.0	fully consolidated subsidiary
ARM Ltd., Hong Kong	ICL Trading Co. (HK) Hong Kong	100.0	100.0	fully consolidated subsidiary
	D.D.F.R Corporation Ltd., Hong Kong	50.0	50.0	proportionately consolidated subsidiary
	BK Giulini Hong Kong Limited, Hong Kong	100.0	100.0	fully consolidated subsidiary
	AUB Storing and Services (Hong Kong) Ltd., Hong Kong	55.0	55.0	fully consolidated subsidiary
BK Giulini Hong Kong Limited, Hong Kong	BK Giulini Hygiene Hong Kong Ltd. Hong Kong	100.0	100.0	fully consolidated subsidiary
B.K. Giulini Chemie GmbH & Co. Germany	Fibrisol Muscalla GmbH, Germany	*65.3	65.3	fully consolidated subsidiary
	Hoyerman Chemie GmbH, Germany	100.0	100.0	fully consolidated subsidiary
	B.K. Mercosur S.A., Uruguay	100.0	100.0	fully consolidated subsidiary
	Rhenoflex GmbH, Germany	100.0	100.0	fully consolidated subsidiary
	Rotem Do Brazil Ltd., Brazil	100.0	100.0	fully consolidated subsidiary
	Tari International N.Z. Ltd., New Zealand	100.0	100.0	fully consolidated subsidiary
	Rhenoflex Dreyer S.A.R.L., France	*10.0	10.0	fully consolidated subsidiary
	B.K. Giulini Polska S.p.0.0., Poland	*5.0	5.0	fully consolidated subsidiary
	B.K. Giulini Argentina S.A Argentina	*5.0	5.0	fully consolidated subsidiary
Rhenoflex GmbH Germany	Gurit Worbla GmbH, Germany	100.0	100.0	fully consolidated subsidiary
	Rhenoflex Dreyer S.A.R.L., France	*90.0	90.0	fully consolidated subsidiary
Nutrisi Holding Belgium	Fertilizantes Naturlis de Chili S.A. Spain	66.7	66.7	proportionately consolidated subsidiary
	NU3 NV, Belgium	50.0	50.0	proportionately consolidated subsidiary
NU3 NV, Belgium	NU3 BV, The Netherlands	100.0	100.0	proportionately consolidated subsidiary
Amsterdam Fertilizers B.V., The Netherlands	Amsterdam Fertilizers B.V., France branch	100.0	100.0	fully consolidated subsidiary
	Amsterdam Fertilizers Deutschland Beschrankt Haftende O.H.G.Germany	*95.0	95.0	consolidated partnership
	Finacil EEIG (European Economic Interest Grouping), The Netherlands	12.5	12.5	fully consolidated subsidiary
	BKG Puriphos B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	ICL Fertilizers Europe S.V., The Netherlands	100.0	100.0	limited partnership
	Nutrisi Holding N.V., Belgium	50.0	50.0	proportionately consolidated subsidiary
	Incap B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	Pekafert B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	ICL Brazil, Ltd. Brazil	100.0	100.0	fully consolidated subsidiary
	Rotem Kimyevi Maddeler Sanayi Ve Ticaret AS Turkey	73.3	73.3	fully consolidated subsidiary
	P.M. Chemicals S.R.L., Italy	100.0	100.0	fully consolidated subsidiary
	B.K.G. Puriphos CV, The Netherlands	*0.4	0.4	fully consolidated subsidiary

* The investee is also held by other Group companies.

Appendix B – List of investee companies as at December 31, 2008

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Israel Chemicals Ltd. (cont.)				
ICL Fertilizers Europe S.V.	B.K.G. Puriphos CV, The Netherlands	99.7	99.7	fully consolidated subsidiary
	ICL Fertilizers Europe CV, France branch, France	100.0	100.0	fully consolidated subsidiary
Amsterdam Fertilizers Deutschland Beschrankt Haftende O.H.G., Germany	Stodiek Dunger GmbH, Germany	100.0	100.0	fully consolidated subsidiary
	ICL Holding Germany GmbH, Germany	100.0	100.0	fully consolidated subsidiary
	Rotem Holding GmbH, Germany	90.0	90.0	fully consolidated subsidiary
	ICL Fertilizers Deutschland GmbH, Germany	100.0	100.0	fully consolidated subsidiary
ICL Holding Germany GmbH, Germany	ICL Holding Beschrankt Haftende O.H.G. Germany	*5.00	5.00	consolidated partnership
Incap B.V. The Netherlands	Intracap Insurance, Switzerland	100.0	100.0	fully consolidated subsidiary
Mifalei Tovala Ltd.	Sherut Rail & Road Transportation Services 1990 Registered Partnership in Israel	50.0	50.0	proportionately consolidated partnership
	M.M.M. Company United Landfill, Industries (1998), Ltd. Israel	33.3	33.3	proportionately consolidated partnership
I.D.E. Technologies Ltd.	Ambient Technologies Inc., Virgin Islands	100.0	100.0	proportionately consolidated subsidiary
	IDE Canaries S.A., Canary Islands	100.0	100.0	proportionately consolidated subsidiary
	Lancara Water Partners, Cyprus	*95.0	95.0	proportionately consolidated subsidiary
	Pelagos Desalination Services, Cyprus	100.0	100.0	proportionately consolidated subsidiary
	Detelca UTE, Spain	20.0	20.0	proportionately consolidated subsidiary
	Indian Desalinization Engineering PVT, India	50.0	50.0	other investment
	V.I.D. Desalination Company Ltd., Israel	50.0	50.0	proportionately consolidated subsidiary
	OTID Desalination Partnership	50.0	50.0	proportionately consolidated subsidiary
	ADOM (Ashkelon Desalination)	40.5	40.5	proportionately consolidated subsidiary
	West Galilee Desalinization Ltd., Israel	50.0	50.0	inactive
	Inversora Del Nuroasta, Mexico	20.0	20.0	inactive
	IDESB Desalinization Partnership	50.0	50.0	proportionately consolidated subsidiary
	H2ID Ltd.	50.0	50.0	proportionately consolidated subsidiary
	IDE-HCH O& M Company, Ltd.	*60.0	60.0	fully consolidated subsidiary
	Omis Water Ltd., Israel	60.0	60.0	proportionately consolidated subsidiary
	IDE Technologies India Private Ltd., India	99.0	99.0	proportionately consolidated subsidiary
Ambient Technologies Inc., Virgin Islands	Larnaca Water Partners, Cyprus	*5.0	5.0	proportionately consolidated subsidiary
	IDE Technologies India Private Ltd., India	*1.0	1.0	proportionately consolidated subsidiary
Dead Sea Magnesium Ltd.	M.R.I. Research & Development Ltd., Israel	*99.0	77.8	fully consolidated subsidiary
	Magnesium Research Institute Registered Amuta, Israel	100.0	100.0	fully consolidated subsidiary
	Dead Sea Magnesium Inc., USA	100.0	100.0	fully consolidated subsidiary
	Israel Light Metal Initiative Ltd., Israel	9.0	9.0	other investment

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Appendix B – List of investee companies as at December 31, 2008

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Oil Refineries Ltd.	Basic Oils Haifa Ltd.	50.0	50.0	associate
	Gadot Biochemical Industries Ltd.	23.15	23.15	associate
	The Consolidated Company for Fuel Export Ltd.	25.0	25.0	associate
	Tankers Service Ltd.	25.0	25.0	associate
	PMA (Energy Resources Development) Ltd.	*25.0	25.0	associate
	Carmel Olefins Ltd.	*50.0	50.0	proportionately consolidated subsidiary
	Gadiv Petrochemical Industries Ltd.	100.0	100.0	fully consolidated subsidiary
	Israeli Petrochemical Works Ltd.	12.3	12.3	associate
	Mercury Aviation (Israel) Ltd.	31.3	31.3	associate
Basic Oils Haifa Ltd.	Havul Trade and Insurance Ltd.	50.0	50.0	associate
Carmel Olefins Ltd.	Dumo Chemicals	24.5	24.5	proportionately consolidated subsidiary
	Koland Palumarim	50.0	50.0	proportionately consolidated subsidiary
	Carmel Olefins (UK) Ltd.	50.0	50.0	proportionately consolidated subsidiary
	Collins Ltd.	50.0	50.0	proportionately consolidated subsidiary
	Carmel Olefins (Marketing) 1990 Ltd.	50.0	50.0	proportionately consolidated subsidiary
H.L. (Holdings – ICL) Ltd.	Israel Chemicals Ltd.	*13.6	13.6	fully consolidated subsidiary
H.L. Acquisitions ICL (1998) Ltd.	Israel Chemicals Ltd.	* 7.7	7.7	fully consolidated subsidiary
H.L. (Kislev, 1998) Ltd.	Israel Chemicals Ltd.	* 3.2	3.2	fully consolidated subsidiary
Orchot Cochavim Ltd.	Elram Housing Corporation – Limited Partnership	* 1.0	1.0	proportionately consolidated partnership
Tower Semiconductor Ltd.	Tower Semiconductor U.S.A.	100.0	100.0	associate
	Jazz Technologies Inc.	100.0	100.0	associate
	Jazz Semiconductor Inc.	100.0	100.0	associate
Sorbie Europe B.V.	PSINet Italy S.R.L (in liquidation)	100.0	100.0	fully consolidated subsidiary
	PSINet (Europe) SARL	100.0	100.0	fully consolidated subsidiary
	PSINet Realty & Data Center Europe SARL (in liquidation)	100.0	100.0	fully consolidated subsidiary
	PSINetworks Europe SARL	100.0	100.0	fully consolidated subsidiary
PSINet Realty and Data Center Europe SARL, Switzerland	PSINet Data Center Netherlands B.V.	100.0	100.0	fully consolidated subsidiary
	PSINet Data Center France SARL	100.0	100.0	fully consolidated subsidiary
	PSINet Realty France SARL	100.0	100.0	fully consolidated subsidiary
	PSINet Data Center Switzerland SARL	100.0	100.0	fully consolidated subsidiary (in liquid.)
PSI Networks Europe SARL	PSI Networks UK Limited	100.0	100.0	fully consolidated subsidiary
Inkia Energy Ltd.	Inkia Americas Ltd. (Bermuda)	100.0	100.0	fully consolidated subsidiary
Inkia Americas Ltd. (Bermuda)	Inkia Americas Holdings Ltd. (Bermuda)	100.0	100.0	fully consolidated subsidiary

* The investee is also held by other Group companies.

Appendix B – List of investee companies as at December 31, 2008

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Inkia Energy Ltd. (cont.)				
Inkia Americas Holdings Ltd. (Bermuda)	Inkia Holdings (Kallpa) Ltd. (Bermuda)	100.0	100.0	fully consolidated subsidiary
	Inkia Holdings (Cobee) Ltd. (Bermuda)	100.0	100.0	fully consolidated subsidiary
	Inkia Holdings (JPPC) Ltd. (Barbados)	100.0	100.0	fully consolidated subsidiary
	Inkia Holdings (CEPP) Ltd.	100.0	100.0	fully consolidated subsidiary
	Inkia CEPP Operations S.A. (Dominican Republic)	100.0	100.0	fully consolidated subsidiary
	Inkia Holdings (CEPP) Ltd. (Bermuda)	100.0	100.0	fully consolidated subsidiary
	Inkia Holdings (Panama Generation) Ltd. (Cayman)	100.0	100.0	fully consolidated subsidiary
	Inkia Panama Management SRL (Panama)	100.0	100.0	fully consolidated subsidiary
	Inkia Holdings (Nejapa) Ltd. (Cayman)	100.0	100.0	fully consolidated subsidiary
	Compania de Enegia de Centro America S.A. (El Salvador)	100.0	100.0	fully consolidated subsidiary
	Inkia Holdings (Acter) Ltd. (Cayman)	67.9	67.9	fully consolidated subsidiary
	Inkia Energy Guatemala Ltd. (Guatemala)	57.5	57.5	fully consolidated subsidiary
Inkia Holdings (Kallpa) Ltd. (Bermuda)	Kallpa Generacion S.A. (formerly Globeleq Peru S.A.) (Peru)	100.0	100.0	fully consolidated subsidiary
Inkia Holdings (Cobee) Ltd. (Bermuda)	Compania Bolivia De Energy Electra S.A. (Nova Scotia)	100.0	100.0	fully consolidated subsidiary
	Compania Bolivia de Energy Electra S.A. – Bolivia Branch Office (Bolivia)	100.0	100.0	fully consolidated subsidiary
Inkia Holdings (JPPC) Ltd. (Barbados)	West Indies Development Corporation Ltd. (Jamaica)	100.0	100.0	fully consolidated subsidiary
Inkia Holdings (CEPP) Ltd. (Bermuda)	Compania de Electricidad de Puerto Plata S.A. (Dominican Republic)	96.7	96.7	fully consolidated subsidiary
	Inkia Energy Guatemala Ltd. (Guatemala)	110.0	100.0	fully consolidated subsidiary
Inkia Holdings (Panama Generation) Ltd. (Cayman)	Pedregal Power Company S.R.L. (Panama)	21.2	21.2	associate
Inkia Holdings (Nejapa) Ltd. (Cayman)	Inkia Salvador Power Ltd. (Cayman)	100.0	100.0	fully consolidated subsidiary
Compania de Enegia de Centro America S.A. (El Salvador)	Inkia Energy Guatemala Ltd. (Guatemala)	*41.9	41.9	fully consolidated subsidiary
Inkia Holdings (Acter) Ltd. (Cayman)	Southern Cone Power Peru S.A. (Peru)	100.0	100.0	fully consolidated subsidiary
	Latin America Holding I Ltd. (Cayman)	100.0	100.0	

* The investee is also held by other Group companies.

Appendix B – List of investee companies as at December 31, 2008

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Inkia Energy Ltd. (cont.)				
Compania Bolivia De Energy Electra S.A. Bolivian Branch Office (Bolivia)	Sericios Energeticos S.A. (SESA) (Bolivia)	100.0	100.0	fully consolidated subsidiary
Latin America Holding I Ltd. (Cayman)	Latin America Holding II Ltd. (Cayman)	100.0	100.0	fully consolidated subsidiary
	Southern Cone Power Peru S.A. (Peru)	100.0	100.0	fully consolidated subsidiary
West Indies Development Corporation Ltd. (Jamaica)	Jamaica Private Power Company Ltd. (Jamaica)	15.6	15.6	other investment
Inkia Salvadorian Power Ltd. (Cayman)	Nejapa Power Company LLC (a Delaware Company)	100.0	100.0	fully consolidated subsidiary
	Nejapa Holdings Company Ltd. (Cayman)	70.5	70.5	fully consolidated subsidiary
Nejapa Holdings Company Ltd. (Cayman)	Nejapa Power Company LLC (a Delaware Company)	99.5	99.5	fully consolidated subsidiary
	Nejapa Power Company LLC (a Delaware Company) branch in El Salvador	100.0	100.0	fully consolidated subsidiary
Southern Cone Power Peru S.A. (Peru)	Generandes Peru S.A. (Peru)	39.0	39.0	associate
Generandes Peru S.A. (Peru)	Edegel S.A.A. (Peru)	54.2	54.2	associate
Mars Information Product Group Ltd.	S.I.T. Software for Information Technology Ltd.	100.0	100.0	proportionately consolidated subsidiary
	CMS Compucenter Ltd.	100.0	100.0	proportionately consolidated subsidiary
	Mars Information Computer Networking Solution Ltd.	100.0	100.0	proportionately consolidated subsidiary
	S.P.M. Computer Services Ltd.	100.0	100.0	proportionately consolidated subsidiary
Quantum (2007) LLC	Cherry Quantum Auto Co. Ltd.	45.0	45.0	associate
Asik Investments Inc.	Asik Group Israel. Ltd.	100.0	100.0	proportionately consolidated subsidiary
I.C.G. Energy Ltd.	Petrotech A.G.	42.8	42.8	associate
	I.C.G. Foil U.S.A. Inc.	100.0	100.0	fully consolidated subsidiary
	Trans Mediair	60.0	60.0	fully consolidated subsidiary
	Helio Focus Ltd.	56.0	56.0	fully consolidated subsidiary
	I.C. Green Energy B.V.	100.0	100.0	fully consolidated subsidiary

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Appendix B – List of investee companies as at December 31, 2008

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
I.C.G. Energy Ltd. (cont.)				
Petrotec A.G.	Petrotec Bio Diesel GmbH	100.0	100.0	fully consolidated subsidiary
	Vital Fett Recycling GmbH	100.0	100.0	fully consolidated subsidiary
Vital Piterclinic GmbH	N.D.C. GmbH	100.0	100.0	fully consolidated subsidiary
	K.O.E.K O. SP.Zoo	80.0	80.0	fully consolidated subsidiary
Better Place LLC	Better Place Inc.	100.0	100.0	fully consolidated subsidiary
	Better Place Israel (2008) Ltd.	100.0	100.0	fully consolidated subsidiary
	Better Place Israel Ltd.	100.0	100.0	fully consolidated subsidiary
	Better Place Denmark	100.0	100.0	fully consolidated subsidiary
	Better Place (Austria) PTI Ltd.	100.0	100.0	fully consolidated subsidiary
	Better Place GmbH	100.0	100.0	fully consolidated subsidiary
	Better Place (New Zealand) Ltd.	100.0	100.0	fully consolidated subsidiary
	Better Place Hawaii Inc.	100.0	100.0	fully consolidated subsidiary
	Better Place Japan S.O. Ltd.	100.0	100.0	fully consolidated subsidiary
	Better Place U.K. Ltd.	100.0	100.0	fully consolidated subsidiary

* The investee is also held by other Group companies.