Israel Corporation Ltd.

July 17, 2024

Rating Affirmation
'ilA+' Rating Affirmed, Outlook Stable

Primary Credit Analyst:

Tom Dar, 972-3-7539722 tom.dar@spglobal.com

Secondary Contact:

Sivan Mesilati, 972-3-7539735 sivan.mesilati@spglobal.com

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Credit Highlights

Key Strengths	Key Risks
• Israel Corp's creditworthiness is underpinned by its main holding, ICL Group Ltd. ("ICL"), one of the leading global potash producer and the largest global bromine producer. • ICL benefits from competitive advantage from mining in the Dead Sea, which provides access to unique high-quality raw materials, logistical advantages, proximity to ports, and a more favorable cost position for potash and bromine than peers. • Israel Corp. has large cash reserves and follows a financial policy which includes maintaining net stand-alone debt of up to about $1 billion. • High financial flexibility resulting from low LTV.	• Cyclical and competitive nature of the fertilizer industry. • Exposure to regulatory changes and political pressure in Israel pertaining to extending the Dead Sea mining concession, which is valid until 2030. • ICL has large non-discretionary capital expenditures (capex) requirements related to its Dead Sea operations. • Some exposure of the bromine segment to cyclical end-markets such as oil and gas, auto, and construction. • Dependence on a major asset.

There is a correlation between the market value of Israel Corp's ("the company") holding portfolio and ICL's performance and Israel Corp's consolidated financial statements. We therefore analyze Israel Corp's business risk profile based on ICL's operating performance and its financial risk profile based on its consolidated reports.

We project that the Company's EBITDA will decline to $1.3 billion-$1.4 billion in 2024 and 2025, from $1.7 billion in 2023, based on our expectation that phosphate and potash prices will likely decline from their 2023 levels. Demand in key end markets for the industrial solutions segment, such as electronics and construction, is likely to remain subdued given the uncertain macroeconomic conditions. Interest rates are still high and consumer sentiment weak. Therefore, our forecasts do not factor in a pronounced recovery in earnings in the industrial solutions segment in 2024. We forecast that the Company's-adjusted debt to EBITDA will be about 1.9x-2.0x in 2024 and 2.0x-2.1x in 2025, compared with 1.4x in 2023. We expect that Israel Corp will continue implementing its investment strategy, while maintaining net stand-alone debt of up to about $1 billion.

We forecast that conditions in the fertilizer market will remain balanced for the rest of 2024 and into 2025. Fertilizer prices experienced downward pressure in 2023. Cumulatively, the key potash benchmark prices have declined more than halved from their peak in 2022. This reflected supply-and-demand dynamics, which were affected by capacity additions such as that in Laos; gradually increasing exports of Belarusian product through Russian ports; and weak affordability for farmers, which reached its lowest level in more than a decade in 2022, but has since improved. The weak affordability caused some demand destruction, particularly for potash and phosphate fertilizers because demand for these is more elastic than that for nitrogen fertilizers.

Potash fertilizer prices are likely to stabilize at the levels seen in the first quarter of 2024, as improving demand counterbalances the additional supply. Our view is underpinned by the underapplication of potash (and phosphate) in previous years and normalizing channel inventory levels. According to S&P Global Commodity Insights, apparent demand for potash declined by 13% in 2022. Although demand increased by 11% in 2023, it remained below the 2021 level. We expect affordability for farmers to improve, given that crop prices decreased by less than fertilizer prices. Stock levels for grain crops decreased further after the 2022-2023 season, suggesting a need to replenish crop inventories, which could support demand for fertilizers in the next one to three years. That said, we still see downside demand risks. The most critical of these are the potential for adverse weather conditions; higher interest rates, which could prompt buyers to postpone purchases until closer to the application season; and the fact that nitrogen fertilizers--which are always prioritized by farmers--remain more expensive than the historical norm.

Outlook

The stable outlook reflects our assessment that Israel Corp will maintain an adjusted debt to EBITDA ratio of 1.9x-2.2x in the next 12 months. Our outlook is underpinned, among other things, by management’s intention to make acquisitions in accordance with its strategic plan. We expect Israel Corp will present adjusted EBITDA of $1.3 billion - $1.4 billion on a consolidated basis in 2024, supported by ICL's solid position in the fertilizer markets and low production costs in Israel.

Downside scenario

A negative rating action may be possible if Israel Corp’s adjusted debt to EBITDA exceeds 4.0x with no short-term prospects of improvement, or if ICL’s operating performance weakens beyond our base case assumptions. This could occur due to weaker market conditions, e.g. as a result of prolonged low potash or phosphate prices due to sluggish demand, ongoing oversupply in both markets or a deterioration in the industrial solutions segment. We could also lower the rating if ICL deviated from its publicly stated dividend policy or embarked on sizable leveraged acquisitions. Dividend distribution that is not in accordance with the Company's policy or acquisitions that are not in accordance with its strategic plan, which will weaken its liquidity profile, may also lead to a downgrade.

Over the medium term, the rating could come under pressure if uncertainty continues regarding the renewal of the Dead Sea concession. In this scenario, the Company's business risk may weaken, as it currently benefits from ICL's inherent advantages of operating in the Dead Sea.

Upside scenario

We may consider a positive rating action if the Company strengthens its financial risk profile such that its debt to EBITDA drops below 1.5x on a sustainable basis and as part of management policy, while ICL maintains at least its current operating performance in accordance with our base case scenario.

Our Base-Case Scenario

Assumptions

- Consolidated revenue to decrease to $6.6 billion-$6.9 billion in 2024 and 2025 as phosphate and potash fertilizer prices decrease modestly compared to 2023 prices. This would likely impair ICL's sales in 2024 and 2025 although it will be partly offset by increased demand for both phosphate and potash fertilizer, which were underapplied in previous seasons, as affordability improves. Demand for bromine products is also forecast to remain subdued in 2024 and recover only modestly in 2025, as key end markets, such as electronics and construction, are cyclical and therefore sensitive to the weak economic environment.
- Adjusted EBITDA margin to decrease to 20%-22% in 2024 and 2025.
- Adjusted consolidated EBITDA of $1.3 billion - $1.4 billion in 2024.
- Acquisitions of about $300 million per year at ICL, although no transactions have been completed until June 2024.
- Investments of about $415 million in the coming years, in accordance with the Company's strategic plan.
- Dividend receipts from ICL of up to 50% of adjusted net profit in 2024-2025, in accordance with its dividend policy.
- Dividend distribution of 45% of total net dividends received in practice minus $75 million, in accordance with the Company's dividend policy.
- Consistently maintaining net stand-alone debt of about $1 billion in accordance with the Company's policy.

Key Metrics

Financial Metric	2023A	2024E	2025E
Debt/EBITDA	1.4x	1.9x-2.0x	2.0x-2.1x
FFO/debt	53%	39%-40%	33%-34%
EBITDA/interest expense	7.8x	8.7x-8.9x	9x-10x

A - actual. E – Estimate. FFO – funds from operations.

Base Case Projections

Revenue is predicted to decline by about 10% in 2024. Although underapplication in the previous season is likely to increase demand, this will be offset by an increase in supply based on capacity additions and an increase in exports of Belarusian product via Russian ports. As a result, we expect potash and phosphate fertilizer prices to remain close to the level reported in the first quarter of 2024, which was below the 2023 level.

In our base case, we assume ICL's potash price per tonne will decline by about 20% compared with 2023. Revenue for first-quarter 2024 was down 17% to $1.7 billion as performance in all business segments weakened due to lower commodity fertilizers prices and the difficult macroeconomic environment, which depressed sales in the industrial solutions and phosphate specialties business segments.

EBITDA is also likely to weaken in 2024 and 2025. Lower fertilizer prices are expected to weigh on the adjusted EBITDA margin, lowering it to 20%-22% in 2024 and 2025. We also expect demand for industrial solutions to remain subdued as persistently weak economic conditions erode demand for discretionary items, such as electronics, and higher interest rates affect construction. This will be partly offset by resilient demand in oil and gas applications.

Company Description

Israel Corp. is traded on the Tel Aviv Stock Exchange and holds about 44% in ICL Group Ltd. ("ICL", ilAA/Stable), about 18% in AKVA Group ASA (“AKVA”) and about 9% in Nordic Aqua Partners A/S (“NOAP”). Israel Corp's main shareholders are Millennium Investments Elad Ltd. and Mr. Idan Ofer.

ICL is an international company producing and marketing fertilizers and specialty chemicals based on potash, phosphate and bromide. ICL has four major divisions: Industrial Products, Potash, Phosphate Solutions and Innovative Agriculture Solutions.

AKVA and NOAP are public companies traded on the Oslo Stock Exchange. AKVA is engaged in providing technological aquaculture solutions and services, and NOAP is engaged in the construction of an on-land salmon farm in China.

Business risk

Our assessment of Israel Corp's business risk profile and creditworthiness is underpinned by the operating performance of its main holding, ICL. We estimate that ICL's performance directly affects the market value of Israel Corp's holding portfolio, the size of dividends it receives from ICL, and its financial flexibility as reflected in its LTV (loan to value) ratio.

Our assessment of ICL's business risk, and accordingly to Israel Corp’s business risk, reflects ICL’s position as the sixth-largest global potash producer and the largest global bromine producer. Both markets are concentrated and benefit from high barriers to entry. Not only is there a lack of economically viable deposits with a high mineral concentration, but also new players would incur substantial construction costs and there is a long lead time to develop a new greenfield potash mine. In addition, the bromine industry is characterized by stringent regulatory requirements, which translate into expensive and complex logistics systems. The high barriers to entry mean more stable sales volumes and give ICL the ability to defend its market share.

ICL's sound cost position underpins the quality of its earnings. ICL benefits from access to high-quality and cost-efficient resources based on a concession from Israel to extract minerals from the Dead Sea until 2030. As a result, production costs are lower than underground potash mining operations or places where bromine is extracted from resources that have a lower mineral concentration (the lower the concentration, the more-difficult and expensive it is to extract). This translates into higher margins and more-robust earnings and cash flow performance during down cycles.

There are additional benefits directly related to the Dead Sea operations, such as the hot and dry climate, which allows ICL to store large amounts of potash outdoors at a low cost and utilize the less energy-intensive solar evaporation production process. In addition, the strategic location of ICL’s Dead Sea assets ensures proximity to key markets such as China, India, and Brazil, which reduces shipping costs and allows the company to fill short lead-time orders; this strengthens its bargaining power.

Given that 80% of the potash produced is exported, transportation cost is a key element in potash prices. ICL's ongoing shift from the production of commodity fertilizers to value-added complementary products is an important strategic step that will also help the company to stabilize profits through the cycle.

Our view of ICL's credit profile is further supported by its geographical sales spread, which reduces exposure to changes in demand caused by regional factors, such as extreme weather. The balanced geographic profile also exposes ICL to different planting calendars, which smooth the effects of seasonality in earnings.

ICL's acquisitions of two specialty fertilizer and plant nutrition businesses in 2021 (Compass Minerals and Fertilaqua) strengthened its positioning in Brazil, a key agricultural market globally. In our view, these acquisitions allowed ICL to gain exposure to a high growth market, while balancing the effects of seasonality on the business. ICL's Industrial Products segment also provides important end-market and cash-flow diversity, due to the less-than-perfect correlation between agricultural and industrial demand.

ICL's main business risk relates to its dependence on the extension of its Dead Sea concession by the Israeli government in 2030, and its exposure to political pressures and regulatory changes. This translates into uncertainty as to whether ICL’s operations will continue in their current form beyond 2030. There have been no clear developments in this area.

ICL's position in the commodity phosphate market is weaker than that of peers such as OCP, due to the relatively low quality of the phosphate rock mined in Israel's Negev Desert, high production costs, and the lack of an alternative mining site. Reserves at the current site are dwindling and there were about 35 million tonnes remaining as of December 2023.

Our view of ICL's business is further constrained by the highly cyclical nature of the fertilizer industry. The industry's changing supply-demand balance is difficult to predict because it depends on fertilizer price expectations, harvests, the crop mix, farmers' earnings (which depend on crop prices), the weather, and inventory levels. When new supply comes on stream, higher-cost capacities tend to be curtailed. Political decisions influence both demand and supply, through export allowances or taxes and subsidies in various core markets, especially India and China.

Finally, demand for potash and phosphate is more volatile than for nitrogen fertilizers, as farmers can skip or reduce their application for one or more seasons, without immediately affecting yield.

Financial Risk

ICL's performance is correlated with the market value of Israel Corp's holding portfolio, its LTV ratio and financial metrics based on its consolidated statements. We analyze Israel Corp's financial risk profile on the basis of its consolidated statements while adjusting its EBITDA to reflect any dividend receipts from AKVA. At the same time, we examine its LTV ratio as an indicative metric for its financial flexibility and ability to refinance its debt.

As of the date of this report, the company presents a negative LTV, since it has negative net debt. This decrease is mainly attributed to the decrease in the Company's net debt. We believe that Israel Corp's financial flexibility remains adequate, and that it can refinance its debt if needed.

We expect ICL to continue to be Israel Corp's core holding and thus our base case scenario is underpinned by our assumptions regarding ICL. ICL's dividend policy since 2016 includes distribution of up to 50% of adjusted net income.

The fertilizer industry's cyclicality is a structural constraint to ICL's financial risk profile, and therefore to Israel Corp's financial risk profile, because it translates into volatility in profits outside of the Company's control, as well as large seasonal working capital swings. ICL's track record of navigating its business through the cycle and prudent financial policy are important mitigating factors.

Table 1.

Israel Corp. Ltd. -- Financial Summary (Mil. $)

Industry Sector: Chemicals

	2023	2022	2021	2020	2019
Revenue	7,536	10,015	6,955	5,043	5,271
EBITDA	1,715	3,969	1,671	936	1,216
Funds from operations (FFO)	1,283	2,685	1,284	699	881
Interest expense	221	210	201	198	212
Cash interest paid	178	173	194	206	203
Cash flow from operations	1,699	2,057	939	718	870
Capital expenditure	773	737	593	603	557
Free operating cash flow (FOCF)	926	1,320	346	115	313
Dividends paid	280	729	153	65	149
Discretionary cash flow (DCF)	633	591	193	50	164
Cash and short-term investments	1,567	1,542	1,116	919	751
Gross available cash	1,567	1,542	1,116	919	751
Debt	2,419	2,880	4,132	4,250	4,051
Equity	6,365	5,852	4,285	3,764	3,883
Adjusted ratios					
Annual revenue growth (%)	(24.8)	44.0	37.9	(4.3)	(5.1)
EBITDA margin (%)	22.8	39.6	24.0	18.6	23.1
Return on capital (%)	14.5	40.8	15.5	4.4	10.1
EBITDA interest coverage (x)	7.8	18.9	8.3	4.7	5.7
FFO cash interest coverage (x)	8.2	16.5	7.6	4.4	5.3
Debt/EBITDA (x)	1.4	0.7	2.5	4.5	3.3
FFO/debt (%)	53.0	93.2	31.1	16.4	21.8
Cash flow from operations/debt (%)	70.2	71.4	22.7	16.9	21.5
FOCF/debt (%)	38.3	45.8	8.4	2.7	7.7
DCF/debt (%)	26.2	20.5	4.7	1.2	4.0

Liquidity

We examine the Company's liquidity profile on a stand-alone basis. We assess the Company's liquidity as strong, reflecting our expectations that its sources to uses ratio will exceed 1.5x in the 12 months starting April 1, 2023. Our liquidity assessment is based on Israel Corp's cash balance and on expected dividends from ICL on the one hand, and on debt maturities and G&A expenses on the other hand. We note that in our liquidity calculation we excluded any unannounced dividend distributions and unannounced dividend receipts from ICL for the second half of 2024 and the first quarter of 2025.

Following are the company's liquidity sources and uses on a stand-alone basis for the 12 months beginning April 1, 2024:

Principal Liquidity Sources	Principal Liquidity Uses
• About $978 million in cash and cash equivalents. • Unutilized signed credit facilities for more than a year in the amount of about $210 million. • About $26 million in dividend receipts from ICL in June 2024.	• Ongoing maturities of long term loans and bonds of about $196 million. Of this, about $84 million were paid in May 2024. • Interest, general and administrative expenses of about $30 million. • About $37 million distributed as dividend in June 2024.

Debt maturities

Year	2024	2025	2026	2027	2028 onwards
Maturities (Mil. $)	60	223	129	172	232

Covenant Analysis

We expect the Company to maintain adequate headroom (over 15%) on all its financial covenants.

Modifiers

Diversification/portfolio effect: Neutral

Capital structure: Neutral

Liquidity: Neutral

Financial policy: Neutral

Management and governance: Neutral

Comparable ratings analysis: Negative

The fact that most of the Company's operation is performed through the holding of public companies and not through direct ownership of assets adversely affects the rating.

Environmental, Social, And Governance

We capture environmental factors, including risks posed to natural capital, as a moderately negative consideration in our credit rating analysis of Israel Corp, as reflected in the operations of its main subsidiary, ICL, since our assessment of Israel Corp's creditworthiness is based on ICL's operating performance.

ICL's Dead Sea operations account for less than 20% of revenue and its share of responsibility for the region's water depletion is about 23%, with the balance due to evaporation, increased use of upstream water by all neighboring countries, and less rain in general. ICL's mining concession in the Dead Sea is valid until 2030.

From time to time there are discussions with the Israeli government on environmental issues. We understand to date, these discussions have not related to the 2030 concession.

Over the longer term, we anticipate water scarcity may force ICL to reduce its use of Dead Sea minerals, which could undermine its business and the rating, and thus also Israel Corp.'s rating.

Social factors are a moderately negative consideration, as ICL's operations could indirectly damage the foundations of buildings located near the shoreline, as well as other shoreline infrastructure. Although this has not created social tensions or led to material claims to date, ICL continues to engage with the local communities and businesses.

ICL's ability to preserve its natural and social capital are key factors in maintaining the viability of its business model.

Governance factors are an overall neutral consideration in our credit rating analysis of Israel Corp.

Recovery Analysis

Key analytical factors

- We are affirming our 'ilA' issue rating, identical to the issuer rating, on Israel Corp's unsecured bond series (Series 12, 13, 14, 15).
- The recovery rating for these series is 3, reflecting our assessment that in the case of default, the recovery rate would be 50%-70%.
- Our recovery rating assessment is supported by the holding of tradable shares of three companies from different areas of operation that are not necessarily correlated.

Simulated default assumptions

- Simulated year of default: 2029

- A deep recession in various economies will lead to competitive pressure and price drops in the chemicals and energy industries, materially devaluating the company's holdings.
- The Company will be liquidated, an assessment based on the fact that there is no activity at the holding company level and its entire value at the time of default will be based on the shares it holds.
- In the deterioration process, the Company will use 40% of its signed credit facilities.
- On the day of the default, the company's LTV ratio will be close to 100%, following a sharp drop in the market value of ICL and AKVA. We also assume an additional 30% reduction in share value at liquidation (amounting to a total reduction of about 70%).

Simplified waterfall

- Gross discrete asset value at liquidation: about NIS 1.85 billion
- Administrative costs: 5%
- Enterprise value available for secured debt: about NIS 1.75 billion
- Total secured debt: about NIS 825 million
- Value available for unsecured debt: about NIS 930 million
- Total unsecured debt: about NIS 1.45 billion
- Recovery expectations for unsecured debt: 50%-70%
- Recovery rating for unsecured debt (1 to 6): 3

Mapping Recovery Percentages To Recovery Ratings

Recovery expectations (%)	Description	Recovery rating	Notching above/below issuer rating
100%	Full recovery	1+	+3 notches
90%-100%	Very high recovery	1	+2 notches
70%-90%	Substantial recovery	2	+1 notch
50%-70%	Meaningful recovery	3	0 notches
30%-50%	Average recovery	4	0 notches
10%-30%	Modest recovery	5	-1 notch
0%-10%	Negligible recovery	6	-2 notches

Recovery ratings are capped in certain countries to adjust for reduced creditor recovery prospects in these jurisdictions. Recovery ratings on unsecured debt issues are generally also subject to caps (see Step 6, paragraphs 90-98 of Recovery Rating Criteria For Speculative-Grade Corporate Issuers, December 7, 2016, for further detail). ICR--Issuer credit rating.

Reconciliation

In order to create a basis for comparison with other rated companies, we adjust the data reported in the financial statements which we use to calculate financial ratios. The main adjustments we made to Israel Corp's consolidated data for 2023 are as follows:

- Deducting available cash and cash equivalents, as we define them, from reported financial debt.
- Adjusting financial debt, EBITDA and interest expenses to reflect pension expenses.

Table 2.

Israel Corp. Ltd.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. $) for the Fiscal Year Ended Dec 31, 2023

	Debt	Shareholders' equity	EBITDA	Interest expense	S&P Global Ratings' adjusted EBITDA	Cash flow from operations	Capital expenditure
Reported Amounts	**3,217**	**2,776**	**1,667**	**203**	**1,715**	**1,822**	**780**
S&P Global Ratings adjustments							
Cash taxes paid	--	--	--	--	(254)	--	--
Cash interest paid	--	--	--	--	(171)	--	--
Reported lease liabilities	348	--	--	--	--	--	--
Postretirement benefit obligations/deferred compensation	214	--	(3)	11	--	--	--
Accessible cash and liquid investments	(1,567)	--	--	--	--	--	--
Capitalized interest	--	--	--	7	(7)	(7)	(7)
Share-based compensation expense	--	--	7	--	--	--	--
Asset-retirement obligations	172	--	--	--	--	--	--
Nonoperating income (expense)	--	--	--	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	(116)	--
Noncontrolling interest/minority interest	--	3,589	--	--	--	--	--
Debt: Litigation	35	--	--	--	--	--	--
EBITDA: Gain/(loss) on disposals of PP&E	--	--	(1)	--	--	--	--
EBITDA: Other income/(expense) (principle based)	--	--	45	--	--	--	--
Total adjustments	**(798)**	**3,589**	**48**	**18**	**(432)**	**(123)**	**(7)**
S&P Global Ratings adjusted amounts							
	Debt	**Equity**	**EBITDA**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditure**
Adjusted	**2,419**	**6,365**	**1,715**	**221**	**1,283**	**1,699**	**773**

Related Criteria And Research

- Principles Of Credit Ratings, February 16, 2011
- Methodology: Industry Risk, November 19, 2013
- Country Risk Assessment Methodology And Assumptions, November 19, 2013

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, December 16, 2014
- Recovery Rating Criteria For Speculative-Grade Corporate Issuers, December 7, 2016
- Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Group Rating Methodology, July 1, 2019
- Environmental, Social, And Governance Principles In Credit Ratings, October 10, 2021
- Methodology For National And Regional Scale Credit Ratings, June 8, 2023
- Corporate Methodology, January 7, 2024
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, January 7, 2024
- Sector-Specific Corporate Methodology, April 4, 2024
- S&P Global Ratings Definitions, June 9, 2023

Ratings List

Israel Corporation Ltd.	Rating	Date when the rating was first published	Date when the rating was last updated
Issuer rating(s)			
Long term	ilA+/Stable	03/07/2005	04/07/2023
Issue rating(s)			
Senior Unsecured Debt			
Series 12,13	ilA+	13/03/2018	04/07/2023
Series 15	ilA+	27/04/2021	04/07/2023
Series 14	ilA+	02/12/2019	04/07/2023
Issuer Credit Rating history			
Long term			
July 04, 2023	ilA+/Stable		
November 22, 2016	ilA/Stable		
January 26, 2016	ilA+/Negative		
September 21, 2009	ilA+/Stable		
February 12, 2009	ilAA-/Negative		
November 30, 2008	ilAA/Watch Neg		
December 31, 2006	ilAA/Stable		
July 12, 2006	ilAA		
July 03, 2005	ilAA/Negative		

Additional details	
Time of the event	17/07/2024 04:48
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Rating requested by	Issuer

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