Directors' Report to the Shareholders of Israel Corporation Ltd.

For the Three Months Ended March 31, 2003

DESCRIPTION OF THE CORPORATION AND ITS BUSINESS ENVIRONMENT

The Israel Corporation Ltd. (hereinafter – the Corporation) is an investment company engaged in the initiation, promotion and development of businesses in Israel and abroad, and is actively engaged in management of its Group companies.

The Corporation is held 60% by the Ofer Brothers Group, and 20% by Bank Leumi Le-Israel B.M. In February 2003, the holdings structure was changed by the various parties in the Ofer Brothers Group (see section Various Events Occurring During the Period of the Report and Thereafter).

The Corporation's strategy is designed to adapt its business structure to the business reality in Israel and globally, while expanding the Group's geographic dispersion and international market penetration with respect to manufacturing and marketing.

In the recent period and especially following the events of September 11, 2001, and the worldwide economic slowdown, the Group has been making efforts to reduce expenses and bring about cost savings in the framework of extensive efficiency plans that were implemented by the Group companies prior to the slowdown, and the results of these efforts are reflected in their operating results. In addition, the Group has been taking steps to improve the cash flows of the companies.

The Group's activities are centered, mainly, in the chemicals, shipping, energy, advanced technology and communications sectors, through an array of investee companies. The Corporation's headquarters provides management services, through a wholly-owned subsidiary, as well as active involvement in the strategic planning and business development of its investee companies.

CHANGES IN THE INVESTMENT PORTFOLIO

A. Tower Semiconductor Ltd. (hereinafter – Tower)

(1) In February 2003, Tower, Israel Corporation Technologies (I.C. Tech) Ltd. (hereinafter – "I.C. Tech"), the primary Wafer partners, and an additional partner in Tower (hereinafter – "the Investors") consented to amend their agreements with Tower, in connection with the payment on account of the fifth milestone, in the amount of $41.0 million.

Pursuant to the amendment, upon receipt of the required approvals, the Investors will invest $24.6 million in Tower's capital ($4.4 million of which by I.C. Tech). The balance of the payment, in the amount of $16.4 million, is to be invested in Tower's capital, subject to an additional fundraising by Tower, in the amount of $22 million, no later than December 31, 2003.
In exchange for the initial investment, in the amount of $24.6 million, the Investors will receive ordinary shares of Tower based on a price of $3 per share (which constitutes the average price of Tower's shares in the 30 trading days prior to the decision of Tower's Board of Directors to amend the investment agreement). Regarding the balance of the payment, in the amount of $16.4 million, the Investors will receive ordinary shares of Tower according to a price per share which is based on the share price at which Tower raises the additional amount of $22 million.

In addition, the primary Wafer partners were granted an option to convert, during January 2006, an amount of up to $13.2 million out of the amounts recorded as customer advances, to ordinary shares of Tower at a price which is based on the average price of Tower's shares in the 30 trading days prior to December 31, 2005. The amendment is subject to additional approvals, including of the Investments Center, and approval of the banks of the amendment of the agreement (see Section (3)).

(2) Subsequent to the balance sheet date, the Investors transferred the amount of $13.4 million on account of the first payment in respect of the fifth milestone, pursuant to the amendment to the investment agreements, although approval of the banks for amendment of the agreements has not yet been obtained.

(3) In accordance with Tower's credit facility agreements with the banks in connection with construction of FAB2 (which were amended during 2002), Tower was supposed to, as a material condition to the agreements, to raise by December 31, 2002, $110 million. Of this amount, as at December 31, 2002, $84 million was raised and $2.25 million was raised during the period of the report.

Tower is in the midst of negotiations with the banks with respect to amendment of the credit agreements regarding deferral of the capital raising date.

Tower's Management estimates that obtaining such deferral is probable.

During the period of the negotiations with the banks, the banks limited the full amount which Tower may draw-down pursuant to the credit facility agreements.

B. During the period of the report, Kol 1 Investments in Communications (H.L.) Ltd. (hereinafter – "Kol 1") sold its entire holdings (40%) in RSL Com Finland OY, in exchange for €14 million (of which €3.2 million is a repayment of shareholders' loans). Kol 1 realized a net, after-tax gain of approximately NIS 47.4 million.

FINANCIAL POSITION

The total assets, as at March 31, 2003, amounted to NIS 16,043 million, compared with NIS 17,022 million, as at March 31, 2002.

The balance of investments and long-term loans as at March 31, 2003 amounted to NIS 1,482 million, compared with NIS 1,694 million as at March 31, 2002.

The Company's shareholders' equity as at March 31, 2003 amounted to NIS 2,026 million, compared with NIS 2,045 million as at December 31, 2002.

The Company's working capital as at March 31, 2003 amounted to NIS 78 million, compared with NIS 68 million as at December 31, 2002.

The cash flows generated by operating activities in the current period amounted to NIS 904 million compared with NIS 277 million in the corresponding period of last year.

SOURCES OF FINANCING

As at March 31, 2003, the total financial liabilities of the Corporation and its wholly-owned and controlled headquarters companies (hereinafter – "the Headquarters Companies"), amounted to NIS 2,402 million.

As at March 31, 2003, the Corporation and the Headquarters Companies had investments in liquid assets of NIS 703 million, invested, primarily, in treasury bills, short-term dollar deposits and medium-term dollar debentures.

In the current period the Corporation and the Headquarters Companies repaid current maturities of long-term loans in the amount of NIS 94 million.

RESULTS OF OPERATIONS

The Corporation ended the period of the report with earnings of NIS 96 million, compared with a loss of NIS 57 million in the corresponding period last year.

Set forth below are the factors which impacted the results of operations in the period of the report:

A. Israel Chemicals Ltd. (hereinafter – "ICL") finished the period of the report with earnings of NIS 122.3 million compared with earnings of NIS 94.1 million in the corresponding quarter last year.

B. ZIM Israel Navigation Co. Ltd. (hereinafter – "ZIM") finished the period of the report with earnings of NIS 10.7 million compared with a loss of NIS 36.9 million in the corresponding quarter last year.

C. Oil Refineries Ltd. (hereinafter – "ORL") finished the period of the report with earnings of NIS 134.4 million, compared with a loss of NIS 98.0 million in the corresponding quarter last year.

D. Tower Semiconductor Ltd. (hereinafter – "Tower") finished the period of the report with a loss of NIS 67.3 million, compared with a loss of NIS 56.3 million in the corresponding quarter last year. The loss includes non-capitalized expenses relating to FAB2 in the amount of NIS 59.1 million, compared with NIS 30.0 million in the corresponding quarter last year.

E. The results for the period of the report include non-recurring income, in the amount of NIS 27 million. Without the non-recurring income, the earnings for the quarter amounts to NIS 69 million, compared with a loss of NIS 37 million, without non-recurring expenses, in the corresponding quarter of last year.

F. The financing expenses of the principal Group companies decreased in the period of the report, as a result of the decrease in the dollar interest rate as well as due to the earnings in the marketable securities investments portfolio, for some of the companies owing to a real revaluation in the dollar exchange rate. The financing expenses in the consolidated financial statements amounted to NIS 31 million in the period of the report compared with NIS 99 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 and by non-recurring gains/losses.

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

ISRAEL CHEMICALS LTD.

ICL finished the period of the report with earnings of NIS 122.3 million, compared with NIS 94.1 million in the corresponding quarter last year.

In the period of the report, the ICL continued to contend with the slowdown in the global economy and with the increase in the prices of energy, main raw materials (particularly sulfur) and marine shipping. On the other hand, compared with the corresponding quarter last year, ICL benefited from the devaluation of the shekel–dollar exchange rate, from the strengthening of the euro, the British pound and the Japanese yen in comparison with the dollar. ICL also benefited from the decline in the dollar interest rates and from a certain improvement in demand, mainly in the fertilizers sector.

ICL is taking steps to adapt its marketing and production policy to the global market conditions, and is focusing on improvement of the cash flows, diversification of the sources of financing and implementation of activities which will bring about efficiency and cost savings.

Sales of the ICL Group totaled NIS 2,618 million in the period of the report, compared with NIS 2,084 million in the corresponding quarter last year, an increase of 25.7%. The increase in sales reflects an increase in the total turnover in all of the Group's four areas of operation, and stems particularly from an increase in the quantity of potash sold which is partly due to the consolidation of Cleveland Potash Ltd. (hereinafter – "CPL"), the results of which were not included in the corresponding quarter of last year. The sharp upward revaluation of the euro against the dollar also contributed to the increase in revenues from sales in Europe. The increase in energy and sulfur prices (a main raw material in the production of fertilizers) acted to offset part of the earnings.

The selling and marketing and general and administrative expenses increased during the period of the report over the corresponding quarter last year, this being due to consolidation of the results of CPL as well as from the sharp upward revaluation of the euro against the dollar.

The financing expenses for the period of the report amounted to NIS 30.6 million, compared with NIS 53.9 million in the corresponding quarter last year. The decrease in financing expenses stems, mainly, from a decrease in average dollar interest rates for the period.

ZIM ISRAEL NAVIGATION CO. LTD.

ZIM finished the period of the report with earnings of NIS 10.7 million compared with a loss of NIS 36.9 million in the corresponding quarter last year.

Despite very competitive conditions and the situation existing in the industry, the quantities shipped in the period of the report increased over the corresponding quarter last year by 30.7%. In the period of the report, the average revenue per container fell by 1.4% in contrast with the corresponding quarter last year. Total sales in the period of the report amounted to NIS 2,158 million, versus NIS 1,695 million in the corresponding quarter last year.

Zim is continuing to take efficiency measures, which has resulted in a decline in the average variable expense per container, this being in spite of the increase in fuel prices.

During the period of the report, Zim entered into agreements for the leasing of two container ships for a period of 10 years, with an option to extend the period and to acquire one other ship from this series. The ships are to be placed into service during 2004 and 2005.

TOWER SEMICONDUCTOR LTD.

Tower finished the period of the report with a loss of NIS 67.3 million, compared with a loss of NIS 56.3 million in the corresponding quarter last year.

During the period of the report, non-capitalized expenses were included in connection with FAB2, in the amount of NIS 59.1 million, compared with NIS 30.0 million in the corresponding quarter last year.

There was an increase in the marketing, administrative and general expenses in the amount of NIS 10.4 million and an increase in the cost of sales, which were offset by an increase in total sales and a decline in the net financing expenses.

During the period of the report, Tower's sales totaled NIS 59.0 million, compared with NIS 39.5 million in the corresponding quarter last year and compared with NIS 54 million in the fourth quarter of 2002.

The increase in sales stems from an increase in the quantities produced in FAB1 as well as from an increase in the price per unit.

Notwithstanding the increase in sales in the amount of $4.2 million in FAB1 over the corresponding quarter last year, the cost of sales increased by a very small percentage.

During the period of the report, Tower received two initial orders from its Wafer partners for the production of chips in FAB2 having geometric shapes of 0.18 μ.

Regarding amendment of the agreements with respect to the fifth milestone, see the section "Changes in the Investment Portfolio".

OIL REFINERIES LTD.

ORL finished the period of the report with earnings of NIS 134.4 million, compared with a loss of NIS 98.0 million in the corresponding quarter last year.

The refining sector finished the period of the report with earnings of NIS 119 million, compared with a loss of NIS 91 million in the corresponding quarter last year.

For the first time since the security event, which began in September 2000, and the worsening of the recession in the local market, there was an increase in fuel consumption of 3% over the corresponding quarter last year.

During the period of the report, the refining margin stood at an average level of $23.0 per ton – which declined after the balance sheet date – compared with $17.3 per ton in the final quarter of 2002 and compared with $4.0 per ton in the corresponding period last year.

During the period of the report, the financing expenses amounted to NIS 30 million, compared with financing expenses of NIS 74 million in the corresponding quarter last year. The large fluctuations in the financing expenses derives, mainly from a devaluation or real upward revaluation of the shekel versus the dollar. In the period of the report, there was a real upward revaluation of 1.8%.

In the period of the report, ORL's share in the earnings of its investee companies amounted to NIS 40 million, compared with NIS 7 million in the corresponding quarter last year.

During the period of the report, ORL raised NIS 1.4 billion by means of a private issuance of debentures.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT

During the period of the report, there was no material change with respect to market risks and their management as were reported in the Directors' Report as at December 31, 2002.

EFFECT OF EXTERNAL AND OTHER FACTORS

A. The ORL concession

ORL operates in accordance with a concession it received to construct, operate and maintain facilities and auxiliary plants for purposes of refining mineral oils. The concession received the force of law pursuant to the Anglo-Iranian Oil Treaties Ordinance from 1938. The concession is valid up to October 2003.

On December 12, 2002, an arrangement was signed between ORL, the Government and the Israel Corporation in connection with all that involved with the period after expiration of the concession. Based on the arrangement, upon expiration of the concession period (October 18, 2003), all of ORL's rights deriving from the concession will terminate, and an arrangement will enter into effect according to which, subject to the conditions of the arrangement, the highlights of which are detailed below, ORL shall be permitted to continue to hold the assets it held on the eve of expiration of the concession (hereinafter – "the Assets"). The arrangement was made for 25 years, commencing October 18, 2003 (hereinafter – "the First Period"). ORL, if it is split up into two separate refineries – each of the separate refineries, will be granted an option to continue the aforesaid period for an additional 25 years, provided it notifies the Government no later than two years before the end of the First Period.

The arrangement provides that each side reserves the right to petition the court for clarification of the disagreement regarding the question whether or not all ORL's assets return, by virtue of the historical concession, to the ownership of the Government without consideration, however in any case, any decision made regarding this matter will be implemented only at the end of the arrangement period (25 years or 50 years, as the case may be). If a final court decision is rendered, each side will be permitted to implement its provisions regarding recording of the rights in the Assets, provided such registration will not adversely affect the validity of the remainder of the arrangement's provisions and ORL's right to pledge the Assets in the ordinary course of its business, subject to the provisions of the arrangement. The arrangement conveyed to the State the right to record a caveat on the arrangement's content, on all the real estate assets, and to remove the caveat as stated at any time. Subject to theses provisions, no change shall be made to the recording of the Assets. During the arrangement period, ORL is permitted to execute transactions in the Assets in the regular course of business, and the decision in a disagreement with respect to the Assets shall apply to the proceeds from transactions as stated as well as to assets which ORL shall acquire in the future. A transaction in the Assets, except for a lien in the regular course of business, which does not exceed the period of the arrangement, requires approval of the Accountant General, who shall act in this matter in accordance with the Government's Decision No. 2796, dated November 25, 2002.

During the arrangement period, ORL shall pay to the Government annual permit fees in a fixed amount of $3 million plus additional annual amounts which are dependent on ORL's earnings, as follows: 8% of the annual earnings before taxes and permit fees, in the range of $0–$40 million; plus, 10% of the annual earnings before taxes and permit fees, in the range of $40–$70 million; plus, 12% of the annual earnings before taxes and permit fees, in the range of $70–$90 million. In any case, the amounts paid to the Government as permit fees shall not exceed (including the fixed payment) the amount of $11.6 million. All the amounts shall be translated into shekels in accordance with an exchange rate of $1 = NIS 4.80, linked to the CPI (base index of May 2002).

In the arrangement, the Government committed that if and to the extent possible, it will assist ORL in the transition without interferences from the concession period to the arrangement period (recognition of the existing construction, orderly licensing and construction processes, establishment of an industrial council).

A. The ORL concession (cont'd)

Upon expiration of ORL's rights under the concession, ORL will be subject – commencing from the end of the end of the original concession period (October 18, 2003) and thereafter, to the construction and planning laws and additional local laws, in connection with the Haifa oil refinery. During the period of the report, the Manager of the Ministry of the Interior appointed an investigation committee for the boundaries of the Municipality of Haifa, Nesher and Kiryat Ata, Zvuleun and the area of the oil refineries. The Committee has not yet completed its work. Upon assignment of the area to any particular local authority, municipal tax payments in respect of the Haifa oil refinery will apply.

ORL declared in the agreement that it is aware that the Government intends to initiate legislation which will govern the fuel industry, including regulation, which could affect the arrangement, even though there is no intention to affect the aspects of the arrangement which involve the Assets and the permit fees.

In addition, ORL declared in the agreement that it is aware that the Government and the Israel Corporation agree to act regarding the matter of split up of ORL as detailed in the appendix to the agreement, which was signed between them and which constituted an integral part of the arrangement between the Government and the Israel Corporation.

The arrangement is subject to receipt of various approvals in accordance with law.

B. The splitting of ORL's facilities into separate ownerships

In August 1999, the Government decided to adopt policies in connection with the structure of the fuel industry which include, among other things, creation of competition between the Haifa refinery and the Ashdod refinery, while separating the ownership thereof. The decision also relates to operational matters of ORL in the marketing and petrochemical fields, as well as control over fuel product prices.

In November 1999, the Board of Directors of ORL was requested by the Government Companies Authority to relate to the proposed resolution to the Ministerial Committee on Privatization, concerning the split-up of ORL and the transfer of the Ashdod refinery to the ownership of the Corporation. The Board of Directors of ORL has requested clarifications on an array of issues in order to be able to formulate its position (see also Note 3A to the financial statements).

During 2000–2001, a committee appointed by the Minister of Finance and the Minister of National Infrastructures, reexamined the issue of the split-up of ORL and, in 2002, it submitted its conclusions. The committee recommended not to wait until the end of the concession and to immediately arrange the matters related to the end of the concession. In respect of the structure of the fuel industry and the split-up of ORL, the committee does not see any reason for changing the policy of the Government regarding the future structure of the fuel industry, as reflected in the Government decision dated August 22, 1999. Nevertheless, if it becomes necessary, the Government's decision will be amended so as to make it possible for ORL, in the opinion of the Government, to enter into the marketing sector and the petrochemicals area, and to remove the control over prices. The committee recommended conducting discussions with ORL and the Israel Corporation for the purpose of arranging the relationship with them in a manner which will facilitate implementing the Government decision regarding the split-up of ORL, while arranging, among other things, the issue of the end of the concession and finding a solution for the matter of treatment of the Assets at the end of the concession.

B. The splitting of ORL's facilities into separate ownerships (cont'd)

In an appendix to the arrangement, dated December 2, 2002, regarding the matter of ORL's concession, an appendix which was signed by the Government and the Israel Corporation, the Israel Corporation committed to cooperate to the extent required by the Government, for purposes of split-up of ORL into two separate refineries (Haifa and Ashdod). A mechanism was also determined for performance of valuations as well as a mechanism regarding for sale of the Israel Corporation's shares in ORL or, in the case of a split-up of ORL, acquisition by the Israel Corporation of one of the two refineries and sale of the balance of the Israel Corporation's holdings in ORL, to the Government. In this case, the Israel Corporation will pay to the Government or receive therefrom, the difference between the relative value of the Israel Corporation's share in ORL (26%) and the value of the split-up refinery which it shall choose, based on the valuations performed pursuant to the arrangement.

As at the publication date of the financial statements, the valuations had not yet been completed.

In the assessment of ORL, all that stated above, if it is decided on the implementation thereof and such implementation is, in fact, effected, will have a material impact on ORL, however, at this stage, ORL is not able to estimate and quantify such impact on its financial position.

C. Pursuant to the treaty known as the Montreal Protocol, to which Israel is a party, production and consumption of methyl bromine for soil fumigation in developed countries are being gradually reduced to zero by the year 2005. Sales during the period of the report, to which the prohibition will apply in 2005, were $4.7 million and the operating profit in respect thereof came to $0.7 million. Sales of methyl bromine for soil fumigation to developing countries, is expected to continue until 2015.

Methyl bromine has other uses aside from soil fumigation, such as: pre-shipment treatment, quarantine, raw material or intermediate material for production of another material or product (feedstock), recycling or reuse. These uses are not controlled by the Montreal Protocol. Sales of the agricultural division of the industrial products during the period of the report for uses and to customers who, to the extent currently known, will not be covered by the production and marketing prohibition in 2005, amounted to $6.6 million. The operating profit with respect to these sales was $1.3 million.

ICL's strategy is to continue operating in the area of soil fumigation, even after the prohibition of methyl bromine for the above uses takes effect. Therefore, over the recent years efforts are being made to develop, license and market new applications and substitutes for methyl bromine in this important market.

D. Contrack-Line Ltd. (hereinafter – Contrack) has filed a suit in the Tel-Aviv District Court against Dead Sea Works Ltd. (hereinafter – DSW) and against others, for infringement of a patent regarding a dredge which was designed for crushing salt mushrooms and with respect to the violation of other alleged rights of the plaintiff regarding the dredge.

The District Court ruled that DSW violated the patent. In respect of this ruling an appeal was submitted to the Supreme Court. Mediation proceedings between the parties were not successful and the case is pending hearing of the appeal.

Concurrent with the appeal and on the basis of the aforementioned ruling, Contrack filed a financial claim with the District Court against DSW in the amount of $48 million in respect of the damages/loss it incurred. Contrack requested an exemption from the court fee and the Court permitted Contrack to pay a token fee in the amount of NIS 10 thousand in respect of a claimed amount of up to $20 million. Both sides have submitted appeals on this decision. Rendering of a decision on these appeals has been deferred until after the decision on the appeals which are in the Supreme Court.

DSW has recorded a provision in its books which, in its estimation, based on the opinion of its legal counsel and taking into account the above-mentioned development in the proceedings, is sufficient to cover any exposure arising from such proceedings.

E. On May 29, 2001, a class action suit was filed against Fertilizers and Chemicals Ltd. (hereinafter – Fertilizers) and other defendants, under the Abatement of Environmental Nuisances Law (Civil Actions), 1992. In the claim, the plaintiffs contend that the defendants are polluting the Kishon stream. The plaintiffs request that the Court issue an order to cease the discharge of wastes into the Kishon and to restore the stream to its condition prior to discharge of the wastes.

On June 13, 2001 and on May 22, 2002, December 31, 2002, and March 30, 2003, monetary claims in the total amount of $30 million were filed against Fertilizers and many other defendants regarding the dumping of wastes into the Kishon stream, which allegedly caused the plaintiffs to contract cancer.

These claims are in addition to other claims filed against Fertilizers with respect to bodily injuries and economic damages allegedly caused to the plaintiffs as a result of pollution of the Kishon stream, for which the plaintiffs claim that Fertilizers is also responsible.

In the opinion of the management of Fertilizers, based on the opinion of its legal counsel handling the claims, it is not yet possible to evaluate the risk inherent in the claims and, therefore, no provision has been included in the financial statements in respect thereof.

F. Rotem Amfert Negev Ltd. (hereinafter – Rotem), operates under mining concessions and permits granted by the Minister of National Infrastructures and the Israel Lands Administration, which expire in 2005. Rotem received new mining concessions for the existing fields, with slight changes, at the Zafir site (Oron – Zin) and the Rotem plain, for the period until 2021. The validity of the new concessions is subject to receiving a permit from the Israel Lands Administration for the same period – which is currently being attended to. In addition, Rotem received another mining concession, until the end 2013, with respect to the Effa field. This concession, too, is conditional upon obtaining a permit for the same period from the Israel Lands Administration – which is also being attended to. The current concession grants the Rotem the right to mine ores of phosphate rock, phosphate lime and minerals combined with phosphate layers and to exploit them for production and marketing. In light of the progress with respect to the proceedings for receipt of the permits from the Israel Lands Administration, the Ministry of National Infrastructures approved Rotem's commencement of mining in the Effa field. In the other fields, the mining is being executed in accordance with the existing concessions and permits. Pursuant to both law and the concessions, Rotem is required to pay royalties to the State for each ton of natural phosphorite extracted. The amount to be paid is derived from the value of the quarry and the computation method is detailed in the Mining Ordinance.

EVENTS OCCURRING DURING THE PERIOD OF THE REPORT AND THEREAFTER

A. Millennium Investments Elad Ltd. (hereinafter – "Millennium") reported to the Company that the various parties in the Ofer Brothers Group signed an agreement regarding change in the structure of the holdings in the Israel Corporation. Millennium holds 50.6% of the share capital of the Israel Corporation.

In February 2003, the sale transaction was completed and, as a result, Matash (Investments) Ltd. (hereinafter – "Matash") holds 80% of the share capital of Millennium and Ofer (Ship Holdings) Ltd. holds 20% of the share capital of Millennium, as it did previously.

Matash is controlled by a foreign trust whose beneficiaries are Idan Ofer and his family. Ofer (Ship Holdings) Ltd. is held in equal shares by L.I.N. (Holdings) Ltd. (controlled by Eyal Ofer), Doron Ofer and Udi Angel.

EVENTS OCCURRING DURING THE PERIOD OF THE REPORT AND THEREAFTER (CONT'D)

B. During the period of the report, the shares of the Israel Corporation were consolidated, in such a manner that every ordinary share (Series 1) became an ordinary share of the Corporation, this being as a result of the amendment of the Income Tax Ordinance No. 132, 2002, which amended the Israel Corporation Ltd. Law, 1969) (hereinafter – "the Israel Corporation Law"). Pursuant to the amendment, some of the tax benefits provided in the framework of the Israel Corporation Law were cancelled and, therefore, there is no longer a need for the distinction which was made in the issuance in 2001 between the different classes of shares. Since the requirement to distinguish between the different classes of shares derived from the requirements of the Income Tax Commission, the Corporation requested and received approval in writing from the Income Tax Commission that, among other things, there is nothing preventing consolidation of the Corporation's different classes of shares traded on the stock exchange for income tax purposes. In addition, the Income Tax Commission notified the Corporation, that an issuance of shares by the Corporation commencing with the 2003 tax year will not adversely affect the exemptions and benefits to which the Corporation was entitled in the framework of the Israel Corporation Law.

C. In January 2003, Yehuda Ezra, CPA, ceased to serve as the Corporation's internal auditor. As of this date, Miki Blumenthal, CPA, is serving as the Corporation's internal auditor.

D. In January 2003, the Corporation's Board of Directors decided to change the terms of the stock options plan of its employees. Pursuant to the change, at the time of exercise of the options, the offeree will be issued shares (or will receive shares held by the Corporation or by a company it controls) in the value of the benefit only, and the offeree will pay only the par value of the shares actually issued to him (or will not pay any amount – in a case of a transfer of shares held by the Corporation or by a company it controls, in place of an issuance of shares), and not the exercise price of all the shares with respect to which he gave a notice of exercise.

   In addition, the Corporation's Board of Directors decided to change the exercise period under the options' plan, such that the exercise period will be 36 months in place of 24 months, as provided in the existing conditions of the options' plan.

E. During the period of the report, a notification was given regarding change of the CEOs in Tower, commencing from June 2003. As of this date, Mr. Carmel Vernia will serve as Chairman of the Board of Directors and acting CEO of Tower.

F. During the period of the report, Mr. Ovadia Eli completed his service as Chairman of ORL. A new Chairman has not yet been decided upon.

G. On March 27, 2003, the Corporation's Board of Directors decided to distribute an interim cash dividend, in the aggregate amount of approximately NIS 100 million. The dividend was distributed on April 24, 2003.

ADDITIONAL INFORMATION INCLUDED IN THE AUDITORS' REVIEW REPORT TO THE SHAREHOLDERS

The following is a quotation from the review report of the Auditors:

"We would call attention to that stated below:

A. Note 3A to the financial statements relating to the possibility of splitting the plants of an affiliate, Oil Refineries Ltd. (hereinafter – "ORL") into two plants under separate ownership and the evaluations of ORL concerning the material effects, which cannot be evaluated at this stage, of the above matter on its financial position.

B. Note 4 to the financial statements relating to the uncertainty regarding the contingent liabilities of Israel Chemicals Ltd. (hereinafter – "ICL") and of its subsidiaries. ICL has included provisions in the interim financial statements, relating to certain of these contingent liabilities, which in its opinion adequately cover the amounts of the liabilities, which may arise therefrom. No provisions have been included in ICL's financial statements with respect to contingent liabilities, regarding which the amounts or the outcome of which cannot presently be estimated.

The Board of Directors expresses its appreciation to the Corporation's officers and employees and to the officers and employees of the Group companies for their contribution to achievement of the Group's targets, including execution of its business strategy, efficiency measures and reaching the goals set by the companies.

Idan Ofer	**Yossi Rosen**
Chairman of the Board of Directors	**President and CEO**

May 28, 2003