The Board of Directors
The Israel Corporation Limited

Dear Sirs:

Review of the unaudited interim consolidated financial statements as at March 31, 2003 and for the three-month period then ended

At your request, we have reviewed the interim consolidated balance sheet of The Israel Corporation Ltd. as at March 31, 2003, and the related consolidated statement of earnings, the statement of changes shareholders' equity and the consolidated statement of cash flows for the three-month period then ended.

Our review was conducted in accordance with procedures prescribed by the Institute of Certified Public Accountants in Israel and included, inter alia, reading the said financial statements, reading the minutes of the Shareholders' Meetings and of the meetings of the Board of Directors and its committees, as well as making inquiries of persons responsible for financial and accounting matters.

We received review reports of other auditors, regarding the interim financial statements of certain subsidiaries, whose assets constitute 73.7% of the total consolidated assets as at March 31, 2003 and whose revenues constitute 90.8% of the total consolidated revenues for the three-month period then ended. Furthermore, the data included in the interim consolidated financial statements relating to the net asset value of the investments in affiliates stated on the equity basis and to the Group's equity in their operating results, is based on financial statements most of which were reviewed by other auditors.

Since the review performed was limited in scope and does not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the said interim consolidated financial statements.

In the course of our review, including the reading of the review reports of other auditors as stated above, nothing came to our attention which would indicate the necessity of making material modifications to the interim consolidated financial statements referred to above, in order for them to be in conformity with generally accepted accounting principles and in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

We would call attention to that stated in:

1. 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.

2. 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.

Sincerely,

Somekh Chaikin
Certified Public Accountants (Isr.)

May 28, 2003

Consolidated Balance Sheets as at

In terms of shekels of March 2003

	March 31		December 31
	2003	2002	2002
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets			
Cash and cash equivalents	**227**	418	151
Marketable securities	**612**	637	687
Short-term loans and deposits	**89**	38	59
Trade receivables	**1,198**	1,839	1,673
Other receivables	**902**	871	877
Inventories	**2,421**	2,279	2,427
Buildings and commercial space held for sale	**30**	34	30
	5,479	6,116	5,904
Long-term investments, loans and receivables			
Investments in investee companies	**1,135**	1,307	1,126
Investments in other companies	**268**	293	287
Deposits, loans and long-term receivables	**79**	94	84
	1,482	1,694	1,497
Fixed assets	**8,151**	8,200	8,312
Other assets and deferred expenses	**931**	1,012	957
	16,043	17,022	16,670

Idan Ofer	**Yossi Rosen**	**Avisar Paz**
Chairman of the Board of Directors	President and CEO	Chief Financial Officer

May 28, 2003

	March 31 2003 (Unaudited) NIS millions	March 31 2002 (Unaudited) NIS millions	December 31 2002 (Audited) NIS millions
Current liabilities			
Short-term credit from banks and others	**2,936**	3,006	3,561
Trade payables	**1,103**	851	1,071
Other payables	**1,262**	1,131	1,204
Proposed dividend	**100**	-	-
	5,401	4,988	5,836
Long-term liabilities			
Long-term liabilities to banks and others	**4,684**	5,700	4,920
Convertible debentures	**185**	549	184
Debentures	**-**	19	-
Deferred taxes, net	**1,093**	979	1,063
Liability for employee severance benefits, net	**792**	670	727
	6,754	7,917	6,894
Minority interest	**1,862**	1,820	1,895
Shareholders' equity	**2,026**	2,297	2,045
	16,043	17,022	16,670

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Earnings

In terms of shekels of March 2003

	Three months ended March 31		Year ended December 31
	2003	2002	2002
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Sales, services and work executed	**2,663**	2,228	9,619
Cost of sales, services and work executed	**1,861**	1,583	6,607
Gross profit	**802**	645	3,012
Research and development expenses, net	**34**	31	136
Selling, transport and marketing expenses	**425**	348	1,523
General and administrative expenses	**111**	89	426
Operating income	**232**	177	927
Financing expenses, net	**(31)**	(99)	(367)
Other income (expenses), net	**4**	(13)	(330)
Earnings before taxes	**205**	65	230
Income tax	**(73)**	(16)	(195)
Earnings after taxes	**132**	49	35
Group's equity in earnings (losses) of affiliates, net	**21**	(65)	(151)
Minority interest in earnings of subsidiaries, net	**(57)**	(41)	(192)
Net earnings (loss) for the period	**96**	(57)	(308)
	NIS	**NIS**	**NIS**
Basic and diluted earnings (loss) per share Earnings (losses) per NIS 1 par value of the share capital	13.93	(8.18)	(44.59)

The accompanying notes are an integral part of the financial statements.

Statements of Changes in Shareholders' Equity

In terms of shekels of March 2003

	Share capital and capital reserves	Shares of the Corporation held by a subsidiary	Adjustments arising from translation of financial statements of investee companies	Proposed dividend subsequent to the balance sheet date	Retained earnings	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the three-month period ended March 31, 2003 (Unaudited)						
Balance as at the beginning of the period	1,510	(13)	(72)	101	519	2,045
Net income for the period	-	-	-	-	96	96
Proposed dividend	-	-	-	(101)	1	(100)
Adjustments from translation of financial statements	-	-	(15)	-	-	(15)
Balance as at the end of the period	1,510	(13)	(87)	-	616	2,026
For the three month period ended March 31, 2002 (Unaudited)						
Balance as at the beginning of the period	1,514	(21)	(95)	-	928	2,326
Net loss for the period	-	-	-	-	(57)	(57)
Adjustments from translation of financial statements	-	-	25	-	-	25
Issuance of capital	(2)	5	-	-	-	3
Balance as at the end of the period	1,512	(16)	(70)	-	871	2,297

The accompanying notes are an integral part of the financial statements.

Statements of Changes in Shareholders' Equity (cont'd)

In terms of shekels of March 2003

	Share capital and capital reserves	Shares of the Corporation held by a subsidiary	Adjustments arising from translation of financial statements of investee companies	Proposed dividend subsequent to the balance sheet date	Retained earnings	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the year ended December 31, 2002 (Audited)						
Balance as at the beginning of the year	1,514	(21)	(95)	-	928	2,326
Net loss for the year	-	-	-	-	(308)	(308)
Proposed dividend subsequent to the balance sheet date	-	-	-	101	(101)	-
Adjustments from translation of financial statements	-	-	28	-	-	28
Reduction of reserves due to decline in value of investment	-	-	(5)	-	-	(5)
Issuance of capital	(4)	8	-	-	-	4
Balance as at the end of the year	1,510	(13)	(72)	101	519	2,045

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Cash Flows

In terms of shekels of March 2003

	Three months ended March 31		Year ended December 31
	2003	**2002**	**2002**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS millions	**NIS millions**	**NIS millions**
Cash flows generated by operating activities:			
Net earnings (loss) for the period	**96**	(57)	(308)
Adjustments to reconcile net earnings (loss) to net cash flows generated by operating activities (A)	**808**	334	1,989
Net cash inflow generated by operating activities	**904**	277	1,681
Cash flows generated by investing activities:			
Investments in investee and other companies	**(5)**	(5)	(152)
Acquisition of fixed assets and other assets	**(185)**	(188)	(863)
Long-term loans granted	**(6)**	(1)	(23)
Sale (acquisition) of marketable securities, net	**81**	(14)	(98)
Investment grant in respect of fixed assets	**9**	5	57
Proceeds from sale of fixed and other assets	**3**	44	60
Collection of long-term loans	**8**	12	31
Granting of short-term loans and deposits in banks, net	**(15)**	(9)	(34)
Proceeds from sale of investments in investee and other companies	**12**	12	25
Acquisition of newly consolidated subsidiaries (B)	**-**	-	(110)
Proceeds from sale of investment in formerly consolidated subsidiaries (C)	**-**	-	(3)
Net cash outflow generated by investing activities	**(98)**	(144)	(1,110)
Cash flows generated by financing activities:			
Issuance of convertible debenture and receipt of long-term loans	**71**	527	1,567
Repayment of debentures and long-term liabilities	**(760)**	(260)	(1,770)
Repayment of short-term loans, net	**(30)**	(132)	(258)
Proceeds from exercise of options of employees in the Corporation and in a subsidiary	**-**	13	26
Acquisition of shares of subsidiary by its subsidiary	**(10)**	-	-
Dividend paid to minority shareholders of subsidiaries	**-**	-	(124)
Net cash inflow (outflow) generated by financing activities	**(729)**	148	(559)
Translation differences of cash balances in autonomous investees	**(1)**	2	4
Increase in cash and cash equivalents	**76**	283	16
Balance of cash and cash equivalents at the beginning of the period	**151**	135	135
Balance of cash and cash equivalents at the end of the period	**227**	418	151

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Cash Flows (cont'd)

In terms of shekels of March 2003

	Three months ended March 31		Year ended December 31
	2003	2002	2002
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
A. Adjustments to reconcile net earnings (loss) to net cash flows generated by operating activities			
Income and expenses not involving cash flows:			
Group's equity in undistributed losses (earnings) of affiliates, net, less dividend	**(21)**	65	205
Minority interest in earnings of subsidiaries, net	**57**	41	192
Depreciation and amortization	**216**	209	1,031
Deferred taxes, net	**49**	14	136
Capital losses (gains), net	**(43)**	(1)	19
Inflationary erosion of long and short-term loans granted and increase in value of marketable securities, net	**(4)**	20	52
Inflationary erosion of liabilities received and of short and long-term liabilities, net	**(27)**	1	(34)
Increase (decrease) in liability for employee severance benefits, net	**66**	(8)	13
	293	341	1,614
Changes in asset and liability items:			
Decrease (increase) in trade and other receivables	**455**	(78)	295
Decrease (increase) in inventories	**(26)**	143	32
Increase (decrease) in trade and other payables	**86**	(84)	30
Decrease in buildings and commercial space held for sale	**-**	12	18
	515	(7)	375
	808	334	1,989
B. Acquisition of newly consolidated subsidiaries			
Working capital (excluding cash and cash equivalents)	-	-	(10)
Fixed assets, other assets and long-term receivables	-	-	(44)
Deferred taxes	-	-	(56)
	-	-	(110)

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Cash Flows (cont'd)

In terms of shekels of March 2003

	2003 NIS millions	2002 NIS millions	2001 NIS millions
C. Proceeds from sale of investment in formerly consolidated subsidiaries			
Working capital (excluding cash and cash equivalents)	**-**	-	(4)
Long-term investments, fixed assets, other assets and receivables	**-**	-	3
Long-term liabilities	**-**	-	(2)
	-	-	(3)
D. Non-cash transactions			
Acquisition of fixed assets on supplier credit	**59**	40	92
Consideration from sale of investments	**28**	-	-

The accompanying notes are an integral part of the financial statements.

Note 1 - Reporting Principles and Accounting Policies

A. General

1. These interim financial statements have been prepared in accordance with generally accepted accounting principles applicable to the preparation of interim period financial statements.

2. The accounting policies applied in the preparation of these financial statements are consistent with those applied in the financial statements of December 31, 2002.

3. These financial statements have been prepared in an abridged form as at March 31, 2003 and for the three-month period then ended. They should be read in conjunction with the annual financial statements as at December 31, 2002 and for the year then ended and their related notes.

4. Commencing January 1, 2003, the Corporation applies Accounting Standard No. 14 regarding "financial reporting for interim periods", and Accounting Standard No. 15 regarding "decline in the value of assets". The first-time application of these standards did not have a material impact on the results of operations.

B. Financial statements in inflation adjusted values

The financial statements have been prepared on the basis of historical cost adjusted for the changes in the general purchasing power of the Israeli currency.

The comparative figures are also stated in terms of shekels of March 2003.

Details of the rates of change in the Consumer Price Index (hereinafter – CPI) and the representative exchange rate of the U.S. dollar (hereinafter – dollar):

	CPI	Representative exchange rate of the U.S. $
	%	%
During the three-month period ended March 31, 2003	0.78	(1.06)
During the three-month period ended March 31, 2002	2.36	5.71
During the year ended December 31, 2002	6.50	7.26

Note 1 - Reporting Principles and Accounting Policies (cont'd)

C. New Accounting Standards

– Accounting Standard No. 12, "Discontinuance of Adjusting Financial Statements for Inflation". According to this Standard, the adjustment of financial statements for the effect of the changes in the general purchasing power of the Israeli currency will be discontinued as of January 1, 2003.

In December 2002, the Israel Accounting Standards Board published Accounting Standard No. 17, according to which implementation of Standard No. 12 is deferred until January 1, 2004. Therefore, the adjustment of the financial statements will be discontinued as of January 1, 2004, and until December 31, 2003, the Company will continue to prepare adjusted financial statements according to Opinion No. 36 of the Institute of Certified Public Accountants in Israel. The inflation-adjusted amounts included in the financial statements as at December 31, 2003, will be the basis for the nominal financial reporting starting January 1, 2004. The effect of Standard No. 12 depends on the rate of inflation and on the sources financing of the Corporation and the investee companies.

– Accounting Standard No. 13 – "The Effect of Changes in Foreign Exchange Rate" was published. The Standard deals with the translation of transactions in foreign currency and the translation of financial statements of foreign operations for the purpose of including them in the financial statements of the reporting entity, commencing January 1, 2003.

According to Accounting Standard No. 17, application of this Standard was postponed to January 1, 2004.

In the Company's estimation, the impact of this Standard is not expected to have a significant impact on the results of operations, financial position and the cash flows.

Note 2 - Investments and Supplementary Information

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.

Note 2 - Investments and Supplementary Information

A. Tower Semiconductor Ltd. (hereinafter – Tower) (cont'd)

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 agreement 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 roughly NIS 47.4 million.

Note 2 - Investments and Supplementary Information

C. As part of undertakings of ICL and certain of its subsidiaries (hereinafter – "the Companies") from December 2002, in agreements for the sale customer receivables in the framework of a "securitization" transaction, to a foreign company which was established for this purpose and which is not owned or controlled by ICL, the balance of the customer receivables sold for cash, as at the balance sheet date, amounted to $250 million (December 31, 2002 – $93 million).

The anticipated maximum amount of the financial means which will be placed at the disposal of the acquiring company, for purposes of acquiring the customer receivables of the Companies is approximately $250 million, on a current basis, in such a manner that the proceeds to be received from the customers whose debts were sold, will be used for acquisition of new customer receivables.

D. 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.

E. 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.

Note 3 - Concessions

A. Oil Refineries Ltd.

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.

Note 3 - Concessions (cont'd)

A. Oil Refineries Ltd. (cont'd)

On December 2, 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).

Note 3 - Concessions (cont'd)

A. Oil Refineries Ltd. (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.

In May 1996, the Government appointed a team of experts to examine the structure of the oil refining industry in Israel. In November 1996, the team submitted its recommendations. The basic thrust of the report, is to split ORL into two separately owned companies, one is to operate the Haifa refinery and the other the Ashdod refinery. Upon completion of the split-up, these companies will be allowed to enter the wholesale oil-marketing field and, later on, into the retail oil marketing field as well. In this situation of open competition, the control of oil prices at the refinery gate will be gradually removed. The team also does not see any reason for restricting the entry of the oil refining companies into the petrochemical field. The Board of Directors of ORL rejected the recommendations of the said team of experts.

In a meeting held on August 13, 1997, the Government resolved to empower the Minister of National Infrastructures and the Minister of Finance to appoint a panel which is to formulate a reform of the oil refining industry, while examining the possibility of application of the following principles:

Note 3 - Concessions (cont'd)

A. Oil Refineries Ltd. (cont'd)

Separation of ORL's activities between the refining plant in Haifa and the refining plant in Ashdod, with the aim of creating two companies where, in at least one of which, there will be no Government ownership; removal of the control over prices of oil products at ORL's refinery gate upon completion of separation of the activities and in accordance with the competitive developments in the refining industry; maintenance of the set-up of ORL's activities with respect to the non-marketing of distillates; prevention of cross ownership which will cause development of non-competitive corporate structures in the fuel market and the refining industry; arrangement of the matter of ORL's concession received from the British Mandate Authorities; combining the operations of the petrochemical plants with those of ORL and guidance of the team set up for the purpose of preparation of a proposed law for the fuel market, and inclusion in the proposed law the structure of the refining industry and rules for operation therein, in accordance with the decision.

In addition, the Government resolved to proceed with the building and operation of an additional port infrastructure for fuel and distillates in Ashkelon, as part of the efforts to permit the development of competition in the fuel products market.

Eilat Ashkelon Pipeline Co. Ltd. and Oil Infrastructures Ltd. have constructed a port for distillates in Ashkelon. The port was operated in April 2000.

On August 22, 1999, the Government decided, for purposes of encouraging competition in the refining industry in Israel, to take steps to promote competition between the Haifa refinery and the Ashdod refinery while separating the ownership thereof, and to adopt a governmental policy with respect to the structure of the fuel industry and the rules for operating therein, after completion of the process of separation of the two refineries as stated above, among other things, in according with the following principles:

1. Operations of the refineries in the area of marketing of refined oil products will be permitted in the manner which is determined in that decision (among other things: principles will be defined which permit the refineries to gradually enter into activities in the marketing area while examining the consequences of the marketing activities of each of the refineries on the competition in the fuel industry and while reviewing and defining the different marketing channels and methods in and through which the refineries will be permitted to operate; activities of the refinery in the marketing area, if and when allowed, shall be through a company which is separate from the company operating in the refining area; the Government shall act to obligate the refineries to ensure equal access on the part of all of the oil companies to purchase refined products; permitting the refineries to operate in the area of marketing of refined oil products shall be oriented such that they will not adversely effect the continued existence of the competitive conditions in all areas of the fuel industry, and particularly in the area of marketing of refined oil products by the filling stations).

Note 3 - Concessions (cont'd)

A. Oil Refineries Ltd. (cont'd)

2. Price control:

   The matter of the gradual removal of price controls over distillates sold at the refinery gate and based on the degree of competition which will develop in the industry shall be examined, and at the same time, control over 95 octane and 96 octane gasoline being sold by the filling stations shall also be looked into.

3. The operation of the two refineries in the petrochemical area shall be permitted in such a way that will assure them both an equal opportunity to operate in the area. The activities of the refineries in the petrochemical area shall be carried out in a manner which will assure full transparency of their activities.

It was also decided to appoint a joint team of representatives of the Ministries of National Infrastructures, Finance, Justice and the Government Companies Authority, which will act to arrange the matters referred to above in the appropriate legal framework.

In November 1999, ORL received from the Government Companies Authority, (hereinafter – "the Authority") the text of "A Draft Decision to the Ministerial Committee for Privatization" (hereinafter – "the Draft Decision") the gist of which is, the privatization of ORL by way of its split-up, such that after the conclusion of negotiations, the refinery in Ashdod will be transferred to the Corporation as a going concern, and no shares or rights of any kind in ORL will be retained by the Corporation. The Authority requested that, in accordance with Section 59B(c) of the Government Companies Law, 1975, ORL shall submit to the Authority the position of ORL's Board of Directors to the above Draft Decision.

On November 23, 1999, ORL's Board of Directors considered the above request of the Government Companies Authority, and decided in connection with the letter of the Government Companies Authority dated November 3, 1999 regarding the Government's decision of August 22, 1999, and the decision of the Ministerial Committee for Privatization dated October 20, 1999, that ORL views favorably the reorganization of the oil refining and the fuel industries in Israel and that in order to permit ORL's Board of Directors to relate positively to the proposal for privatization by means of the splitting up ORL, and out of concern for the well being of ORL, its stability, its ability to operate under competitive conditions, and the welfare of its employees, it is necessary to clearly define certain vital matters, which follow from the proposed decision to privatize, and which are of supreme importance to ORL:

Principles relating to the structure of the fuel industry subsequent to the split-up of ORL; structure of the split-up transaction; the tax implications of the split-up; assurance of the rights of ORL's employees; the capital structure of ORL following the anticipated split-up; the immediate arrangement of the matter of ORL's concession which will apply after its expiration; assurance of the fulfillment of ORL's undertakings, including its commitment regarding the supply of raw material to the petrochemical industry.

Note 3 - Concessions (cont'd)

A. Oil Refineries Ltd. (cont'd)

It was also decided that after the receipt of the necessary clarifications regarding these matters, ORL's Board of Directors will convene to consider the proposal, to formulate its position with respect thereto, and to communicate its position to the Government Companies Authority, as requested by it in its letter of November 3, 1999.

Following this decision of ORL's Board of Directors, three work groups were set up, at the initiation of ORL, consisting of representatives of ORL, the Government Companies Authority, the Ministry of Finance and the Ministry of National Infrastructures, for the purpose of examining the various matters raised by the Board of Directors. As at the signing date of the financial statements, no answers had yet been received to the matters raised by the Board of Directors of ORL.

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 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.

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.

Note 3 - Concessions (cont'd)

A. Oil Refineries Ltd. (cont'd)

It was determined in the arrangement, that in a case of a split-up of the company into two separate refineries, each of the split-up refineries shall pay license fees to the Government based on the defined internal allocation, in accordance with the determination to be made in the framework of the split-up arrangement, and provided that the total license fees received by the Government from the two refineries, shall not be greater or less than the amount the Government would have received from ORL if the split-up had not been effected.

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.

B. Israel Chemicals Ltd.

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.

Note 4 - Contingent Liabilities and Commitments

A. Beginning in 1994 and subsequent thereto, subsidiaries of ICL (hereinafter – the Bromine Group) received notifications of third and fourth party claims filed against them, by U.S. companies that were sued in U.S. Courts (among others, in two class actions), by approximately 30,000 plaintiffs contending to be former banana plantation workers, mainly from Central America, the Caribbean Islands, Africa and the Philippines (hereinafter – the plaintiffs). The plaintiffs claim that they suffered bodily injury in the past as a result of exposure to a chemical substance during the period of their employment, many years ago, in the countries of their domicile, which was produced by a number of producers, which included a substance produced by ICL, including large chemical companies, and which was supplied to companies engaged in the growing of bananas (hereinafter jointly – "the defendants") during an aggregate period of about thirty years (1960–1990).

A large part of the aforesaid proceedings have been transferred by the U.S. Court to the countries of plaintiffs' domicile, however, appeals regarding various aspects of the relevant judicial decisions are still pending before a number of U.S. appellate courts. In most of the above-mentioned proceedings, the Bromine Group companies were named as direct defendants.

In the framework of the hearings being held at various judiciary levels of the U.S. courts, the U.S Supreme Court recently ruled that ICL, due to its not being a first level subsidiary of the State of Israel, is not entitled to Federal jurisdiction. At this stage, ICL is unable to assess the impact of this decision on the proceedings or other proceedings involving possible claims regarding that mentioned above.

During the time that the aforementioned proceedings have been carried on, most of the plaintiffs have reached compromise arrangements with most of the defendants. The Bromine Group is mentioned in these compromise arrangements, as a party that is included in the claims release documents of the above claims. At this stage, it is not possible to estimate the effect of the abovementioned compromise arrangements on the claims for indemnification and reimbursement that were lodged against the Bromine Group. It should be noted that there are claims of approximately 5,000 plaintiffs (possibly even more), who are not parties to the aforementioned compromise arrangement.

The Bromine Group companies maintain that there is an absence of responsibility or liability on their part. They also maintain that there is a lack of jurisdiction with respect to them regarding these legal proceedings. In addition, the Bromine Group estimates, that the quantities of chemicals supplied by it, if any, was small as compared to the quantity supplied by the other producers being sued in the abovementioned proceedings.

In the opinion of the management of the Bromine Group, in the relevant time periods, the Group had a certain amount of insurance coverage covering the events which are the subject of the claims, although there are disagreements, with at least some of the insurers regarding the coverage and its extent. The Bromine Group is presently engaged in a legal proceeding that was submitted against such insurers in respect of that mentioned above.

Note 4 - Contingent Liabilities and Commitments (cont'd)

A. (Cont'd)

In January 2003, The Bromine Group was informed of three claims filed in Nicaragua by 350 claimants, apparently for alleged damages from use of the aforementioned chemical product. The defendants also include a subsidiary of ICL. Since the process has not yet been served to the subsidiary, it is not required to issue a response. The statement of claim has also not been submitted to the subsidiary and, accordingly, the exact nature of the claim is not known.

Since the claims in question are for personal injury, they do not stipulate any amounts. Nevertheless, since there are thousands of plaintiffs, if they are successful in their claims, the amounts the Bromine Group will have to pay, net of the amounts recognized and paid by the insurers, could be substantial.

Management of the Bromine Group and its legal counsel are unable to estimate the effect of these claims at this stage. Therefore, no provision has been made in the financial statements in respect of the possible outcome of these claims.

B. 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 had violated the patent. In respect of this ruling an appeal was submitted to the Supreme Court, which held a hearing thereon in October 2002. The Court transferred the matter for mediation, with the consent of the parties. 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.

C. 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.

Note 4 - Contingent Liabilities and Commitments (cont'd)

C. (Cont'd)

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.

D. In addition to the contingent liabilities mentioned above, there are a number of claims pending against ICL and some of its subsidiaries (including legal claims). Regarding some of the claims there is insurance coverage and partial provisions have been recorded on the books. In the opinion of the managements of the companies, based on the opinion of its legal advisors, the provisions included in the financial statements are adequate. With respect to claims regarding which it is not possible at this point to estimate the amounts thereof or to predict their outcomes, no provisions have been including in the financial statements.

E. For additional details in connection with the contingent liabilities, see Note 21C of the Corporation's financial statements as at December 31, 2002.

Note 5 - Business Segment Information

	Fertilizers												Eliminations	
	Potash	Phosphate	Eliminations	Total	Industrial products	Agricultural products*	Performance products	Metallurgy	Shipping	Energy	Technology & common	Other activities	& unrelated expenses	Total consolidated
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the three month period ended March 31, 2003														
Total revenue	**904**	**570**	**(26)**	**1,448**	**595**	**53**	**548**	**92**	**-**	**-**	**-**	**109**	**(182)**	**2,663**
Segment results*	**165**	**4**	**5**	**174**	**14**	**10**	**45**	**(18)**	**5**	**35**	**(19)**	**3**	**(5)**	**244**
Three month period ended March 31, 2002														
Total revenue	544	530	(24)	1,050	602	64	479	92	-	-	-	110	(169)	2,228
Segment results*	115	24	1	140	(12)	7	40	(18)	(19)	(25)	(20)	7	2	102

	Fertilizers												Eliminations	
	Potash	Phosphate	Eliminations	Total	Industrial products	Agricultural products*	Performance products	Metallurgy	Shipping	Energy	Technology & common	Other activities	& unrelated expenses	Total consolidated
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Year ended December 31, 2002														
Total revenue	2,760	2,041	(102)	4,699	2,357	406	2,139	370	-	-	-	413	(765)	9,619
Segment results*	560	24	-	584	37	123	205	(63)	(21)	(28)	(102)	14	(5)	744

* The results of each segment includes part of the results of affiliated companies and amortization of excess c