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Directors' Report to the Shareholders of
Israel Corporation Ltd.

For the Year Ended December 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 at the rate of 57% by the Ofer Group (as at the signing date of the financial statements) 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 Events Occurring During the Year 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.

After three years of recession in the world economy, a turnaround is discernible in the international markets in the areas in which the Corporation operates – the fertilizers, shipping and semiconductor fields.

The Corporation took advantage of the recession years to execute reorganization and efficiency measures, improve its cash flows and make strategic acquisitions in the fertilizers' and shipping areas.

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, and is also actively involved in the strategic planning and business development of the investee companies.

This Directors' Report is submitted as part of the periodic report for 2003 and under the assumption that the reader also has the other sections of the said periodic report.

Following is a brief summary of the business sectors:

CHEMICALS

Israel Chemicals Ltd. ("ICL")
(Rate of Holdings as at the Signing Date of the Financial Statements – 52.9%)

ICL is a multinational group of companies operating, mainly, in the fertilizers and chemicals areas, in four sectors of activity – fertilizers, industrial products, performance products and metallurgy.

ICL and the ICL Group companies were declared to be a monopoly in Israel in certain areas of activity.

ICL’s activities are based, mainly, on exploitation of natural resources found in the Dead Sea – potash, bromine, salt and magnesium, and in the Negev – phosphates and limestone, pursuant to concessions granted by the Israeli government, as well as potash mines in the United Kingdom and Spain. The ICL Group is engaged in production of these natural resources, the sale thereof throughout the world, and the development, production and marketing of derivative products based on the use of these raw materials.

The ICL Group has manufacturing plants located throughout the world in, among other places, Israel, the Netherlands, Germany, France, Spain, China, the United Kingdom, the United States and other countries. Along with its manufacturing activities, the ICL Group holds an array of marketing offices, terminals, warehouses and distribution centers both in Israel and abroad.

The ICL Group's activities abroad include, for the most part, the production of products which integrate with or are based on ICL's activities in Israel or in closely related areas. Roughly 60% of ICL’s production activities are carried out in Israel, and more than 90% of ICL’s output is sold abroad. ICL is not dependent on any one customer, supplier, or source of raw materials that are not part of the franchises granted to the Group companies.

ICL is a multi-national group and, accordingly, its financial results are affected both by trends in the global economy as well as by changes in the trading and financing conditions and fluctuations in the currency exchange rates.

The demand for the products of the ICL Group depends on the demand for basic agricultural products and the economic situation in the developed countries.

Most of ICL’s sales are made in foreign currency, mainly the dollar and the Euro. About a quarter of its expenses is in shekels. Therefore, a devaluation or upward revaluation in real terms of the average exchange rate of the shekel versus the dollar affects ICL’s profitability. Changes in the exchange rate of the dollar versus the European currencies and the Japanese yen also have an effect on the operating results, financing expenses, and tax expenses.

In the year of account, the ICL Group continued to contend with the slowdown in the global economy, along with a rise in the prices of energy, its main raw materials (particularly sulfur) and marine shipping plus the upward revaluation of the shekel against the dollar. On the other hand, the ICL Group benefited from a certain improvement in demand in the fertilizers area and from an upward revaluation of exchange rates of the Euro, the British pound and Japanese yen vis-à-vis the dollar, as well as from a decline in the dollar interest rates.

The ICL Group is taking steps to adapt its marketing and manufacturing policies to the conditions existing in the world market, by focusing on improving the cash flows, diversifying the sources of financing and systematically implementing efficiency and cost saving measures.

From time to time, the ICL Group examines various moves in the capital market, including, registering securities for trading and raising capital, in and outside of Israel. Recently, ICL has begun making preparations for a possible fund raising effort in the United States as stated. While it cannot be known if the aforesaid fund raising effort or securities registration will ultimately take place, as at the date of the report, ICL is considering a fundraising which is to be executed in the second half of 2004. As at the signing date of the financial statements, no decision has been made regarding the matter including, among other things, the structure of the issuance and its terms.

SHIPPING

ZIM Israel Navigation Co. Ltd. ("ZIM")
(Rate of Holdings as at the Signing Date of the Financial Statements – 97.5%)

ZIM is engaged in integrated international transportion providing global shipping services – mainly container transportation – via shipping lines spanning considerable geographic dispersion, most of which it travels on a weekly basis. In addition, ZIM is engaged in the transport of conventional merchandise, bulk cargo, refrigerated goods and automobiles. Along with its shipping activities, ZIM also provides related services, which include: international shipments by air and by sea, overland transport services, consolidation, distribution and storage, primarily through its subsidiaries and affiliated companies.

Approximately 83% of Zim's shipping revenues are derived from operations between foreign ports.

As at the balance sheet date, ZIM operates 82 ships, of which 25 are owned (of which five are jointly owned), and the rest are leased, as needed.

For purposes of its operations, ZIM uses about 260,000 containers and trailers, of which approximately 124,000 are owned or held under capital leases while the rest are held under operating leases.

The shipping market in which ZIM operates is very competitive, the means of production of which (i.e., the ships) are mobile, can be moved from location to location and every individual shipping company is permitted to operate almost completely without restriction in all countries. In an effort to achieve greater operational efficiency as well as to improve the level of service, ZIM also operates in cooperation with other shipping companies.

In the year of account, the rate of holdings in ZIM was 48.9%. Subsequent to the balance sheet date, the Corporation acquired from the State all of its holdings in ZIM, at the rate of 48.6% (see also the "Changes in the Investment Portfolio" paragraph).

ENERGY

Oil Refineries, Ltd. ("ORL") (Rate of Holdings – 26%)

Oil Refineries and its subsidiaries are engaged, mainly, in the refining of crude oil, production of petroleum products, products for the petrochemical industry, aromatic compounds for the chemical and plastics industry, and the production of basic oils and wax. The plants of ORL's subsidiaries are integrated with those of ORL and constitute downstream enterprises.

ORL is the only company in the country engaged in crude oil refining, production of various petroleum products and feedstock for the petrochemical industry, and providing crude oil refining services. Therefore, ORL constitutes a monopoly under the Restrictive Trade Practices Law. ORL has two refineries, one in Haifa and the other in Ashdod, which operate in coordination and are dependent on each other. In addition, the Company provides water treatment and power generation services (primarily electricity and steam) to a number of industries adjacent to the Haifa refinery.

ORL uses warehousing, pipeline and loading services provided by Petroleum and Energy Infrastructures Ltd. and Eilat–Ashkelon Pipeline Ltd. Subsequent to the period of the report, the new infrastructure tariffs in the Fuel Administration entered into effect, the impact of which on ORL is not material. It should be noted, that the infrastructure tariffs relating to the unloading and transporting of crude oil have not changed materially and they are significantly higher than the customary tariffs throughout the world.

With the aim of complying with the expected changes in the Gasoline Standards and the changing product mix in the market with entry of the natural gas, ORL's Board of Directors approved investments of $62 million in the construction of an isometric plant, and is also examining an investment in construction of a power plant in Ashdod based on natural gas.

Regarding ORL's concession, see the "Effect of External and Other Factors" paragraph.

ADVANCED TECHNOLOGY

Tower Semiconductor Ltd. (Tower)
(Rate of Holdings as at the Signing Date of the Financial Statements – 21.8%)

Tower is an independent wafer foundry manufacturing semiconductor integrated circuits, in geometries of 1.0 – 0.18 µ, and provides complementary manufacturing services and planning support. In addition to digital manufacturing technologies in CMOS, Tower offers advanced solutions for the manufacture of non-volatile memories, mixed-signal chips and CMOS image sensors for digital photography. Tower has two manufacturing facilities, which ensure a high level of service to its customers: FAB1, which manufactures with 1.0 – 0.35 µ technologies, and has a monthly manufacturing capacity of 16,000 150 mm silicon wafers, this taking into account the existing mix of products based also on the special technologies developed by Tower and focusing the factory's manufacturing activities on advanced manufacturing processes in accordance with customer demands. The new factory, FAB2, is planned for the manufacture of 0.18 µ technologies and lower, and its monthly manufacturing capacity is planned to reach 33,000 200 mm silicon wafers (as at December 31, 2003, approximately 8,500 silicon wafers per month). Tower's output is integrated into electronic products used in a wide variety of markets, including computers and computerized office systems, communications equipment and electronic consumption products. Tower's main customers are semiconductor companies.

Tower has entered into a number of agreements for the planning of FAB2, as well as several integrated arrangements for the provision of financing to FAB2, including agreements and arrangements with technological and business partners, financial investors, banks, and the Israel Investments Center.

In the third quarter of the year, Tower commenced operation of FAB2, and supply of its products to its customers by means of regular manufacturing using 0.18 µ technology. As a result, among other things, it has commenced recording depreciation and amortization.

Completion of construction of the foundry, that is, reaching full manufacturing capacity, is expected to take place at the end of 2006.

Regarding a lawsuit against Tower, the Israel Corporation and the directors of Tower, see the "Events Occurring During the Period of the Report and Thereafter" paragraph.

COMMUNICATIONS

In accordance with its business strategy, the Corporation continues to execute investment possibilities in the communications area.

In 2002, the Corporation acquired 33% of the share capital and debts of a European company which is engaged in providing Internet access services to companies and private networks, as well as supplying managed security, co-location and web hosting services.

During the year of account, the Corporation's rate of holdings in the aforementioned company increased to 61.4% (see also the "Changes in the Investment Portfolio" paragraph).

CHANGES IN THE INVESTMENT PORTFOLIO

A. Tower

(1) During the current year, Tower, Israel Corporation Technologies (I.C. Tech) Ltd. (hereinafter – "I.C. Tech"), a company wholly owned and controlled by the Corporation, the primary Wafer partners in Tower, 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 accordance with which, the condition of reaching the milestone was removed, as were the other directives which Tower did not meet.

(2) Pursuant to amendment of the agreements, during the current year the Investors completed their investments in Tower pursuant to the original agreement to which they committed, in the amount of $41 million in two increments (of which $7.3 million by I.C. Tech).

(3) In exchange for the first part of the investment, in the amount of $24.6 million (of which $4.4 million by I.C. Tech), the Investors received ordinary shares of Tower based on a price of $3 per share.

As a result of the investment, I.C. Tech's share in Tower declined from 28.5% to 26.8%. The capital loss incurred by the Group, in the amount of NIS 9.3 million, was included in the Corporation's financial statements in 2002.

(4) In respect of the second part of the investment, in the amount of $16.4 million, Tower issued shares to the Investors, subsequent to the balance sheet date, based on a price of $7 per share (based on the price per share in a public issuance – see section 5, below).

(5) Subsequent to the balance sheet date, in January 2004, Tower issued, by means of a prospectus published to the public in the United States, approximately 11.4 million ordinary shares at a price of $7 per share for an aggregate consideration of $75.2 million (including partial execution of the options granted to the underwriters).

As a result of the public issuance, and after issuance of the share capital to the investors in respect of the fifth milestone, I.C. Tech's share in Tower declined to 21.8%, and the Group realized a capital gain of $7 million.

(6) Pursuant to amendment of the agreements, the primary Wafer partners were given an option to convert, during January 2006, the amount of $13.2 million out of the amounts recorded as long-term customer advances, into ordinary shares of Tower at a price to be based on the average price per Tower share during the period of 15 trading days which preceded December 31, 2005.

(7) The primary Wafer partners agreed to postpone use of the amounts recorded as long-term customer advances, to which they are entitled in respect of their purchases in the years 2004–2006 and, in exchange, they were granted an option to convert any amount which may be used out of the advances in every quarter in these years into shares of Tower based on the average trading price of Tower's shares on the stock exchange on those dates. Alternatively, amounts not converted to shares as stated above, will be paid by Tower on December 31, 2007. Such amounts will bear interest of Libor + 2.5% which is to be paid on a current basis.

(8) In November 2003, Tower reached agreement with the banks regarding amendment of its credit facility agreements for the financing of FAB2. In the framework of the amendment, the Israel Corporation gave the banks a letter of commitment as part of the arrangements required by them for the granting of a security net by the main shareholders of Tower as a condition for the continued provision of financing by the banks to Tower.

1. In the letter of commitment it was provided that the security net to be provided by the Israel Corporation relates to Tower's obligation to raise additional funds, in the amount of $152 million, by December 31, 2005 (in accordance with the dates and conditions as stated in the credit agreement) (hereinafter – "the Additional Capital").

2. Pursuant to the letter of commitment, the banks are permitted, under certain conditions, to require Tower to issue a prospectus to its shareholders through an issuance of rights to acquire debentures convertible in shares of Tower as well as the issuance of options for the acquisition of Tower shares, all of this on the conditions provided in the letter of commitment. The amount of the issuance shall not exceed the amount which Tower did not succeed in raising in accordance with its obligation to the banks up to that time. The Israel Corporation committed to the banks that it will exercise its full rights and will even purchase in a private issuance of securities as stated, in respect of those shareholders who do not exercise their rights, such that at the end of the period and with the addition of the amounts to be provided by the banks as stated below, 100% of the amounts which Tower was required to raise, as stated above, will be raised.

   Should Tower not be successful in issuing a prospectus on the required dates, the Corporation shall invest in Tower by means of a private offering of convertible debentures on the same terms which would have been included in a public issuance.

3. The total amount of the Corporation's liability to invest in Tower pursuant to the letter of commitment shall not exceed $50 million. The letter of commitment provides, that the investments of certain main shareholders in Tower, if made, shall be considered as fulfillment of the Corporation's liability under the letter of commitment (as detailed in the letter of commitment).

   The Corporation's liability under the letter of commitment is given against the liability of the banks to provide, concurrent with execution of an investment by the Corporation, additional financing to Tower, in the amount of $43 million (in addition to credit of $500 million as provided in the credit agreement). The letter of commitment states that the banks will provide the financing as stated, in proportion to the amounts which the Corporation and certain shareholders provide, such that against every $50 provided by the Corporation and those shareholders, the banks will provide additional credit to Tower of $43.

   In any event, the Corporation is not required to invest more than 50/93 of the amount which is to be raised at that time (including its share in respect of exercise of its rights as a shareholder).

4. The letter of commitment states, subject to the conditions therein, that certain amounts which the Corporation chooses to invest in Tower, whether through a public issuance or a private offering, even if the bank does not exercise its right to realize the security net, shall be taken into account regarding the total amount of its liability under the letter of commitment, and this investment shall be considered as part of the Additional Capital.

5. The letter of commitment shall expire on the earlier of the following dates: (a) completion of the raising of $152 million by Tower as Additional Capital, as defined in Tower's credit agreement; (b) June 30, 2006; or (c) the date on which the Corporation (and the main shareholders in Tower) invests $50 million pursuant to the terms of the security net.

6. Tower's credit facility with the banks includes, among other things, a condition according to which a sale of Tower shares in excess of amounts determined in the agreement will convey to the banks the right to call the credit granted to Tower for immediate repayment. The said condition includes the gradual reduction over the years of the amount of shares the sale of which is limited. In any event, this limitation will not include Tower securities acquired by the Corporation or Group companies after the signing of the letter of commitment.

7. Tower agreed to indemnify the Corporation in the amount of up to $100 million, for expenses and damages stemming from claims caused to the Corporation as a result of its commitment to the banks to provide the security net.

8. As at the signing date of the financial statements, due to raising the amount of $83.1 million (not including issuance expenses) by Tower by means of the prospectus as noted in Section (5), the Corporation's liability under the above-mentioned letter of commitment decreased to $37.0 million.

(9) Tower requested that the Investments Center approve the revised plan for construction of FAB2, in light of the fact that the period for the investments in FAB2 will be extended for more than 5 years from the date of receipt of the original approval from the Investments Center.

Tower's Management estimates, based on discussions held with the Investments Center, that the reaching of a satisfactory arrangement regarding this matter is reasonable.

B. In the first quarter of the year, Kol 1 Investments in Communications (H.L.) Ltd. (hereinafter – "Kol 1"), sold all of its holdings (40%) in RSL Com Finland OY (hereinafter – "RSL"), for a consideration of €14 million (of which €3.2 million constitutes repayment of shareholders' loans). The Group realized a net after-tax gain of NIS 46 million.

C. In July 2003, the I.C. Tech invested $1.5 million in Oren Semiconductors Inc. (hereinafter – "Oren"). In addition, the Corporation converted a shareholders' loan, in the amount of $2.5 million, into shares of Oren. As a result of the investment and conversion of the loan, the Group's share in Oren's shareholders' equity increased from 17.7% to 23.5% and an excess of cost over book value was created, in the amount of $2.7 million, which was allocated to intangible assets. Up to the time of the increase in the rate of holdings, the investment in Oren was presented based on the cost method of accounting, whereas commencing with the third quarter of the period of the report, the investment is presented based on the equity method of accounting.

D. During the year of account, the Corporation transferred the amount of $7.3 million to Sorbie Holdings Ltd. (hereinafter – "Sorbie") as a shareholders' loan. Subsequent to the balance sheet date, the Corporation transferred to Sorbie an additional amount of $3.5 million as a shareholders' loan

E. In October 2003, Sorbie and PSINet Europe B.V. (hereinafter – "PSINet"), affiliated companies of the Corporation (hereinafter – "the Companies"), entered into an agreement with other shareholders in the Companies (hereinafter – "the Partners"), pursuant to which Sorbie acquired its shares from the Partners. In addition, the Partners transferred to the Corporation and the other shareholders in PSINet, their shares in PSINet. In exchange, the Partners received two subsidiaries of the Companies. As a result of the transaction, the rate of the Corporation's holdings in Sorbie and PSINet increased to 61.4%.

Commencing with the fourth quarter of the year of account, the financial statements of the Companies are consolidated with the Corporation's financial statements.

F. Subsequent to the balance sheet date, in February 2004, the Corporation acquired all of the State's shares in ZIM Israel Navigation Co. Ltd. (hereinafter – "ZIM"), at the rate of 48.6% of ZIM's share capital, for an aggregate consideration of NIS 506.4 million. As a result of the acquisition, the Corporation holds 97.5% of ZIM's share capital. The Corporation submitted a tender to acquire the entire holdings of all of the other shareholders in ZIM which, together, hold 2.5% of ZIM's shares.

As a result of the acquisition, excess cost over book value was created to the Corporation, in the amount of NIS 41 million.

G. Regarding exercise of the option to sell Oil Refineries Ltd., see the section "Effect of External and Other Factors".

FINANCIAL POSITION

– The total assets, as at December 31, 2003, amounted to NIS 15,822 million, compared with NIS 16,229 million, as at December 31, 2002.

– The balance of long-term investments, loans and receivables as at December 31, 2003 amounted to NIS 1,601 million, compared with NIS 1,553 million as at December 31, 2002.

– The long-term liabilities as at December 31, 2003 amounted to NIS 6,104 million, compared with NIS 6,433 million as at December 31, 2002.

– The Corporation's working capital as at December 31, 2003 amounted to NIS 196 million, compared with negative working capital of NIS 308 million as at December 31, 2002.

– The cash flows generated by operating activities in the current year amounted to NIS 1,914 million compared with NIS 1,635 million last year and NIS 1,277 million in 2001.

– The cash flows used in investing activities in the current year amounted to NIS 687 million compared with NIS 1,079 million last year and NIS 632 million in 2001.

SOURCES OF FINANCING OF THE CORPORATION AND THE HEADQUARTERS COMPANIES

As at December 31, 2003, the total financial liabilities of the Corporation and its wholly-owned and controlled headquarters companies (hereinafter – "the Headquarters Companies"), amounted to NIS 2,311 million.

As at December 31, 2003, the Corporation and the Headquarters Companies had investments in liquid assets of NIS 741 million, invested, primarily, in CPI-linked and shekel Treasury Bills and short and medium-term dollar debentures.

In the current year, the Corporation and the Headquarters Companies repaid current maturities of long-term loans in the amount of NIS 413 million (including NIS 85 million which were scheduled to be repaid up to December 2004).

In the current year, the Corporation renewed a long-term loan in the amount of $35.5 million, which is repayable in one lump-sum in 2009.

In the current year, one of the Headquarters Companies renewed a long-term loan in the amount of $32.5 million, which is repayable in one lump-sum in 2008.

In the current year, one of the Headquarters Companies sold NIS 71.2 million par value debentures which are convertible into shares of the Corporation for a consideration of NIS 69 million.

Subsequent to the balance sheet date, the Corporation renewed credit received for acquisition of shares in Israel Chemical Ltd., in the amount of NIS 200 million, by means of a private issuance of debentures to institutional investors for a period of 5 years.

RESULTS OF OPERATIONS

The Corporation ended the current year with earnings of NIS 325 million, compared with a loss of NIS 299 million last year.

The Corporation ended the fourth quarter with earnings of NIS 75 million, compared with a loss of NIS 214 million in the corresponding quarter last year.

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

A. Israel Chemicals Ltd. (hereinafter – "ICL") finished the current year with earnings of NIS 451 million compared with earnings of NIS 404 million last year.

B. ZIM Israel Navigation Co. Ltd. (hereinafter – "ZIM") finished the current year with earnings of NIS 204 million compared with a loss of NIS 40 million period last year.

C. Oil Refineries Ltd. (hereinafter – "ORL") finished the current year with earnings of NIS 220 million, compared with a loss of NIS 109 million last year.

D. Tower Semiconductor Ltd. (hereinafter – "Tower") finished the current year with a loss of NIS 500 million, compared with a loss of NIS 225 million last year.

   In the third quarter of the period of the report, Tower commenced operation of FAB2 and, therefore, it began recording depreciation and amortization expenses, which amounted to NIS 163 million, in the second half of the year.

   In the second half of the year, the Corporation included its share in Tower's losses, in the amount of NIS 98 million and, at the same time, it reduced the provision for decline in value of the investment in Tower (which was recorded in 2002) by the same amount.

   The Corporation's share in Tower's losses included for the year of account, totaled NIS 40 million, net.

E. The financing expenses of the principal Group companies decreased in the current year, mainly as a result of the decrease in the dollar interest rate. The financing expenses in the consolidated financial statements amounted to NIS 116 million in the current year compared with NIS 359 million last year.

F. Without the non-recurring expenses/income, the earnings for the current year amount to NIS 385 million, compared with earnings of NIS 23 million last year.

The Corporation's financial results for the fourth quarter were affected by the following factors:

A. ICL concluded the quarter with earnings of NIS 60 million, compared with earnings of NIS 67 million in the corresponding quarter last year.

B. ZIM concluded the quarter with earnings of NIS 78 million, compared with earnings of NIS 22 million in the corresponding quarter last year.

C. ORL concluded the quarter with earnings of NIS 57 million, compared with earnings of NIS 40 million in the corresponding quarter last year.

D. Tower concluded the quarter with a loss of NIS 201 million, compared with a loss of NIS 60 million in the corresponding quarter last year.

E. The results of the fourth quarter of the year include non-recurring expenses, in the amount of NIS 50 million, compared with non-recurring expenses in the amount of NIS 250 million, in the corresponding quarter last year. The total regular earnings in the quarter amounted to NIS 125 million, compared with regular earnings of NIS 36 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 451 million, compared with earnings of NIS 404 million last year.

Sales of the ICL Group totaled NIS 9,944 million in the year of the report, compared with NIS 8,674 million last year, constituting an increase of 14.6%. The increase in sales reflects an increase in turnover in the fertilizers segment, primarily due to an increase in quantities and an increase in the prices of potash and fertilizers. In the year of account, the results of Cleveland Potash Ltd. (hereinafter – "CPL") were consolidated for the full year, whereas last year CPL’s results were included starting from May. The upward revaluation of the euro against the dollar also contributed significantly to the increase in revenues from sales in Europe. Note should also be made of an increase of approximately 25% in sales to South America due to high sales of potash and fertilizers to Brazil.

The gross profit in the year account reached 31.4% of sales, compared with 31.7% of sales last year. Increase in energy and sulfur prices, which serve as a central raw material in the manufacture of potash, the decrease in quantities and the change in the sales mix of the bromine products, the reduced profitability of some of the performance products and revaluation of the dollar–shekel exchange rate, had an adverse effect on the gross profit.

There was an increase in ICL's selling and marketing expenses and general and administrative expenses increased. The increase is explained by an increase in quantities sold, consolidation of the results of CPL for the full year versus seven months last year, an increase in marine shipping prices and the effect of the upward revaluation of the shekel and the euro against the dollar. Part of the increase was offset by the efficiency measures employed by the ICL Group.

Other expenses less other income amounted to NIS 225 million. These expenses include, mainly, a write-down of the production facilities, in the amount of NIS 94 million, provision for early retirement of employees, in the amount of NIS 68 million, and expenses in respect of damage to fixed assets, in the amount of NIS 35 million. Last year, the net other expenses amounted to NIS 82 million.

The financing expenses declined in the year of the report, mainly due to a decrease in the average dollar interest rate for the year, and from a decrease in the average loan balances compared with last year.

ICL finished the fourth quarter of the year with earnings of NIS 60 million, compared with NIS 67 million last year. In the fourth quarter of the year there was an increase in sales of 17% over the fourth quarter of 2002. The results of the fourth quarter were adversely affected by an increase in energy and sulfur prices, the upward revaluation of the dollar–shekel exchange rate, increase in marine shipping prices and a change in the sales mix.

Other expenses less other income in the fourth quarter amounted to NIS 178 million, compared with NIS 18 million in the fourth quarter of last year.

ZIM ISRAEL NAVIGATION CO. LTD.

ZIM finished the current year with earnings of NIS 204 million compared with a loss of NIS 40 million last year. ZIM finished the fourth quarter of 2003 with earnings of NIS 78 million compared with earnings of NIS 22 million in the corresponding quarter of last year.

The number of containers shipped in the year of account increased by 19.4%, compared with the number of containers shipped in 2002, and totaled 1.8 million containers. The additional containers shipped contributed NIS 290 million to the Corporation's income in 2003.

In the fourth quarter of the year, there was an increase in total revenues of $67.4 million compared with the fourth quarter of last year.

The average shipping fee increased by 5%, compared with the average shipping fee of 2002.

The variable expenses in the year of the report increased by 18.4% over 2002. The increase in the quantity of containers shipped at a higher rate than the increase in the variable expenses derives, mainly, from efficiency measures. The leasing expenses in the year of account increased by 38% over last year, and amounted to $235 million, compared with $171 million in 2002. Due to the increase in world trade of 10% per year since 2001, and due to the shortage of ships stemming from a low level of supply, the leasing expenses rose sharply.

In February 2003, Zim entered into agreements for acquisition of one container ship, at a price of $46.2 million, and the leasing of two container ships, for a period of 10 years, with an option to extend the lease period. During 2004 and the beginning of 2005, two owned ships and 5 ships leased for a period of 10 years with an option to extend, are expected to be placed into service.

Subsequent to the balance sheet date, Zim entered into an agreement for acquisition of two container ships, at a price of $23.5 million each. Pursuant to the agreement, upon their acquisition the ships will be leased to the selling company for a period of two years.

TOWER SEMICONDUCTOR LTD.

Tower finished the year with a loss of NIS 500 million, compared with a loss of NIS 225 million last year.

In the third quarter of the year, Tower placed FAB2 into service and, as a result, the recording of depreciation and amortization began, which amounted to NIS 163 million, in the second half of the year.

During the year of the report, Tower's sales totaled NIS 269 million, compared with NIS 227 million last year. The cost of sales amounted to NIS 536 million, compared with NIS 294 million last year. The increase in the cost of sales is explained, in part, by recording of the depreciation and amortization.

Tower finished the fourth quarter with a loss of NIS 201 million, compared with a loss of NIS 60 million in the corresponding quarter last year.

In the year of account, the financing expenses totaled NIS 43.0 million, compared with NIS 9 million last year.

Regarding amendment of Tower’s agreements with its main Wafer partners, and regarding amendment of Tower’s credit agreements with the banks, see the "Changes in the Investments Portfolio" paragraph.

OIL REFINERIES LTD.

ORL finished the year with earnings of NIS 220 million, compared with a loss of NIS 109 million last year.

The refining sector finished the year with operating earnings of NIS 138 million, compared with an operating loss of NIS 185 million last year.

The refining sector finished the fourth quarter with operating earnings of NIS 50 million, compared with operating earnings of NIS 2 million last year.

In the fourth quarter of the year, there was a decline in the demand for crude oil and heating fuel, which was offset in full by an increase in demand for gasoline, diesel fuel and kerosene. The total annual consumption of fuel increased by 22% over last year.

Upon the ending of the war in Iraq, the price per barrel of crude oil of the Brent type dropped from a high point of $34 per barrel in the first quarter and stabilized in the fourth quarter at $22–$28 per barrel. The weakening of the dollar vis-à-vis the other hard currencies along with OPEC’s announcement regarding a cutback of production caused crude oil prices to rise to the upper range of the “OPEC basket” in the third quarter.

The winter in the United States and Europe, and OPEC’s continued pressure on the market, on the one hand, in contrast with increased production (by Iraq and that of 5 other producers, which are not members of the organization), which moderated the price increase, on the other hand, caused an additional price increase in the fourth quarter to an average price of $30 per barrel of the Brent type, where the minimum for the quarter was $28 per barrel.

The average price of one barrel of crude oil during the year of the report was $29, compared with $25 last year, and $30 in the fourth quarter of 2003, compared with $27 in the corresponding quarter last year.

Margin on refining activities ($ per ton):

	January–March	**April–June**	**July–September**	**October–December**	**January– December**
2003	23.0	17.5	16.5	21.6	19.7
2002	4.0	13.2	10.6	17.3	11.1

In the year of account, there was an increase in operating, maintenance, administrative and general expenses during the year, partly due to the increase in depreciation expenses, mainly owing to the operation of new facilities. The increase in expenses was offset in part by a decline in payroll expenses.

In the year of the report, ORL's share in the earnings of its investee companies amounted to NIS 11 million, compared with NIS 2 million last year.

The results for the year included financing income of NIS 83 million, compared with financing expenses of NIS 78 million last year. The large fluctuations in the financing category as between the years derives, mainly, from the impact of the devaluation or real upward revaluation of the shekel versus the dollar.

The tax expenses in the year of account totaled NIS 107 million, compared with a tax benefit last year in the amount of NIS 97 million.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT

As an investments company, the Corporation is exposed to changes in the value of the companies in which it invests. Occasionally, the value of these companies is affected by prices relative to prices of companies traded on stock exchanges and a decline in the prices of these shares could have an adverse impact on the value of the investments included in the financial statements as well as on the results of the Corporation’s operations.

The Corporation’s concentration on investment in a relatively small number of companies increases its exposure with respect to its investment in each company.

Most of the activities of the Group companies are exposed to competition. Among the competitors are some of the world’s leading companies in their fields of activity.

The Corporation invests in companies in the high-tech sector. Investments in this sector involve a high level of risk to due, among other things:

- The uncertainty involved with respect to completion of the technologically advanced developments.
- Lack of assurance as to whether the products will ultimately be developed and, if developed, whether markets will be found therefor, as well as the lack of certainty with respect to locating sufficient sources of financing to complete the developments and penetrate the markets.
- The possibility that prior to completion of the developments and commencement of the marketing thereof, alternative technologies or standards will be found which will effectively nullify the usefulness of the products.
- The generally a high level of dependence on certain key personnel as well as on the recruiting of additional suitable employees.

A significant portion of the activities of the Group companies is based on Government concessions, which are essential to their operations.

Some of the products of the Group companies are characterized by high risk, during the production process, the shipping process, storage and use. In addition, some of the products have a potential for environmental damage, including liquid waste dumping, air pollution, and wastes, which are a by-product of the production. This results in the generation of pollution and the need by those companies to spend money on cleaning up the environment. Moreover, there is a risk involved in suits being filed in respect of bodily injury as a result of exposure to hazardous materials.

The articles of association of some of the Group companies include a Special State share, which grant special rights to its holder.

The Corporation together with companies considered to be under its control, are included in a "borrower group" of controlling interests in the Corporation in accordance with Directives of the Supervisor of Banks. In light of the size of this borrower group, the amount of the credit it needs and the size of the local banking system, there may be an effect on the ability of the companies to raise local sources of financing.

During the period of the report, the Supervisor of Banks in Bank of Israel published an amendment to the restrictions on the liability of a borrower and a borrower group (Directive No. 313).

The amendment includes, among other things: a broadening of the definition of a borrower group which now includes borrowers between which there are material contacts. It was also determined, that a person controls a corporation if he holds the largest interest in any of the means of control of any type, and the section which permitted a split up of the liability of a borrower group which is comprised of a jointly controlled investee company or partnership of several controlling interests was cancelled.

At this stage, Corporation Management is not able to estimate the impact of the Directive on the Group's financial liabilities to banks.

Some of the activities of the Group companies in Israel and abroad require approval and/or registration and/or licensing in accordance with laws, regulations, and international treaties.

Certain of the Group companies are exposed to fluctuations on the global markets with respect to prices of raw materials or other inputs used by them, as well as regarding the selling prices of their products or services.

Some of the Group companies operate on the Sabbath or holidays, which requires a special permit from the relevant authorities.

The global shipping industry is characterized by the cyclical nature of world commerce. This may lead to fluctuations in the results of the operations of the companies active in this field.

ZIM’s operations are characterized by the dependency on port activities and, as such, strikes and other labor sanctions at ports may adversely affect the results of its operations.

More than half of ZIM’s fleet is leased for various periods of time. The continued extension of the lease agreements for the right size ships is dependent on the availability of ships of that type.

The price of leasing ships as well as fuel prices (which are significant factors in ZIM’s operating costs), are not under ZIM’s control.

Approximately 49% of ORL's total sales in 2003 were to 4 major customers (61% in 2002 – to 5 major customers).

The pricing policy of ORL's products is set by statutory orders.

The entrance of natural gas into Israel will require ORL to make significant investments, or to find alternative solutions to the problem of the shrinking local distillates market.

Regarding the split of ORL, see below.

Tower’s activities involve frequent technological changes. The current plant (FAB1) is not geared for production technology of less than 0.35µ. The ability of Tower to compete in the long run is dependent on the construction and operation of FAB2, which will manufacture using a technology of 0.18µ and less.

Tower's activities include a fixed expenses component, which is a significant part of the production costs. As a result, Tower is required to operate its production lines at a very high capacity in order to maintain profitability.

Tower is dependent on a small number of customers. The continuing slowdown in the global economy is causing a decline in the demand for Tower's products and services and, as a result, in a decrease in the sales prices of those products and services, and uncertainty regarding the time and extent of the demand for its products.

The manufacture of semiconductors is characterized by rapid change, which requires developing markets for its products and services. This is due to, among other things, changes in technological developments, industrial standards, customer requirements, the short life of the products, and the decrease in prices of older products.

Tower is dependent on, among other things, its ability to obtain financing from the banks based on the conditions and timetables defined in the credit agreements with them.

Tower raises financing by means of issuance of capital which causes a dilution of the interests of Tower's existing shareholders.

MARKET RISKS

Risks affecting the Corporation

The Corporation views it investment in ICL as a dollar-based investment. Accordingly, the loans taken by the Corporation to finance its interest therein are mainly dollar loans. The effect of changes in the exchange rate of the dollar on the foreign currency liabilities of the Corporation and its headquarters companies, which finance investments in companies who issue dollar-adjusted financial statements, is recorded in a capital reserve and, therefore, is not reflected in the operating results. Despite the aforesaid, there may be differences which stem from timing differences with respect to the receipt and repayment of the loans. The Corporation partially hedges this exposure by means of various financial instruments, including the holding of dollar deposits and execution of currency and derivative transactions in commercial banks (such as dollar/shekel forward transactions and dollar/shekel options).

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

The Corporation’s main dollar financing activities bear variable interest which changes on a quarterly or semi-annual basis. In this context, the Corporation has adopted policies whereby it hedges the outstanding loans bearing variable interest with the volume being determined from time to time, and according to which the range and limitation on the interest rate is determined or created. As of December 31, 2003, the amount of hedged loans is $135 million, which bears maximum interest of 5.5% and minimum interest of 2.6%. For these transactions, it has been determined that they will lapse or expire should the 3-month or 6-month Libor interest rate rise above 5.5–7.5%.

The Corporation's policy, insofar as how the monetary balances are to be held, is to invest these balances in low risk investments with the mix being changed from time to time. As at December 31, 2003, 45% of the financial assets were invested in shekel investments, mainly, convertible debentures, about 23% in index-linked investments, mainly convertible debentures, about 23% in short-term dollar deposits and corporate bonds in Israel and overseas, and about 9% in shares. The risks involved in these investments are: exposure to changes in interest rates, and the expectation of changes in these rates which is reflected in the prices of bonds on the stock exchange, and the exposure of the dollar-linked investments to an upward revaluation of the shekel.

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

The responsible party for risk management is the Chief Financial Officer and details with respect thereto are included in the Periodic Report.

Linked Balance Sheet
As at December 31, 2003
In Millions of Shekels

	In dollars or linked thereto	Other foreign currency or linked thereto	Linked to the CPI	Unlinked	Other	Total
Current assets	772	1,054	319	859	2,512	5,516
Non-current assets (including current maturities)	10	34	42	18	10,202	10,306
Current liabilities	2,596	1,466	8	1,215	35	5,320
Long-term liabilities (including current maturities)	3,728	871	487	375	957	6,418

The consolidated linked balance sheet does not constitute a tool in the monitoring of the Corporation's exposure to market risks.

Corporation's Derivative Positions

As at December 31, 2003

	Par value in NIS millions		Fair value in NIS millions	
	Long	**Short**	**Long**	**Short**
Over One Year				
Hedging changes in LIBOR interest rates on dollar loans				
Recognized for accounting purposes				
CAP options	1,340	-	13.5	-
FLOOR options	1,209	-	(45.3)	-
SWAP options	234	-	(7.2)	-
Up to One Year				
Hedging changes in LIBOR interest rates on dollar loans				
Recognized for accounting purposes				
CAP options	44	-	-	-
Hedging changes in exchange rates on cash flows				
Shekel/Dollar				
Call options – recognized for accounting purposes	101	-	-	-
Put options – recognized for accounting purposes	101	-	2.8	-
Futures contract – recognized for accounting purposes	44	-	(0.1)	-
Euro/Dollar				
Call options – recognized for accounting purposes	-	285	-	(19.2)
Put options – recognized for accounting purposes	-	302	-	2.1
Yen/Dollar				
Call options – recognized for accounting purposes	-	92	-	(2.1)
Put options – not recognized for accounting purposes	-	92	-	0.7
Pound/Dollar				
Call options – recognized for accounting purposes	-	20	-	(0.9)
Put options – recognized for accounting purposes	-	20	-	-
Futures contract – recognized for accounting purposes	5	-	(0.2)	-
Euro/Pound				
Futures contract – recognized for accounting purposes	11	-	0.2	-
Yen/Euro				
Futures contract – recognized for accounting purposes	-	12	-	(0.1)

Risks applicable to investee companies

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

ICL

Some of ICL's products (potash, phosphate, phosphoric acid and fertilizers) and some of its inputs (fuel oil, marine shipping and sulfur) are characterized by set prices, where ICL has only limited ability to influence such price. ICL is exposed to price changes with respect to these products and inputs.

Regarding the prices of the Group's products, as detailed above, there are no hedging mechanisms. ICL Group secures a portion of the marine shipping prices through long-term contracts. As at the balance sheet date, ICL has no hedging protection with respect to fuel oil and sulfur.

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

ICL has a number of subsidiaries overseas which operate independently–autonomously. The measurement currency of these companies is the euro and the British pound.

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

Measurement of ICL's exposure, as stated, is net of the expenses in the selling currency and net of the excess of revenues over expenses in dollars for the companies whose measurement currency is not the dollar. ICL's policy is to hedge a significant portion of this exposure by means of derivative financial instruments.

The prices of certain transactions, even though they are not conducted in dollars, are affected by changes in the exchange rate of the dollar to the currency of the transaction and adjust themselves to changes in the exchange rate within a short period of time. ICL does not hedge against this temporary exposure.

Some of ICL's inputs in Israel are denominated and paid in shekels and, therefore, ICL is exposed to declines in the shekel–dollar exchange rate (upward revaluation of the shekel). ICL's policy is to partially hedge this exposure. The actual rate of hedging is derived, in general, from the position of the dollar exchange rate in relation to the lower end of the fluctuation band as well as on other factors.

The results of ICL and some of the Group companies are measured for tax purposes in a currency other than the dollar, e.g., in Israel – shekels adjusted to the Consumer Price Index, and abroad – in the respective local currency. As a result, the ICL is exposed to the difference between the change in the dollar exchange rate and measurement basis for tax purposes. ICL does not hedge against this item of exposure.

Companies in the ICL Group have liabilities for employee severance pay which are denominated in local currency. In Israel, they are also affected by the increase in the Index. The Israeli ICL companies have funded amounts to partially cover their liabilities. These funded amounts are shekel denominated and are affected by the profits of the funds in which they are invested. ICL does not hedge against this exposure.

ICL has monetary assets and liabilities in currencies other than the dollar or which are not linked to the dollar, beyond the net liability for severance pay mentioned above. The difference between the assets and liabilities in the various currencies generates risk. ICL policy is to hedge against most of the risk by means of financial instruments and derivatives.

ICL has a number of foreign subsidiaries whose activities are independent–autonomous. The ending balance sheet balances of these companies are translated into dollars based on the dollar exchange rate at the end of the period in relation to the reporting currency of the aforesaid companies. The balance sheet balances at the beginning of the period as well as the capital changes during the period are translated into the dollar based on the exchange rate at the beginning of the period or at the time of the capital change, respectively. The differences stemming from the effect of the change in the exchange rate as between the dollar and the reporting currency of the companies create risk. The effects of the said exposure are recorded directly to shareholders' equity. ICL does not hedge against this exposure.

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

As at December 31, 2003, ICL has "cap" options to secure a ceiling of LIBOR interest rates at 3% which cover a theoretical amount of $ 30 million. ICL also purchased and wrote interest options which serve to fix the LIBOR interest rate within the range of 2.5% to 6% (collar). The theoretical amount covered by such collars is $ 176 million. Part of these transactions are combined with options according to which, if the variable interest, based on LIBOR, reaches 6.5%, the transactions will be null and void in that period.

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

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

ICL uses derivative financial instruments (hedging instruments) for hedging purposes only. The hedging instruments eliminate the risks created to ICL, as described above. Therefore, ICL includes the financial results of the transactions hedging the existing assets and liabilities as well as firm commitments with the results of the hedged assets and liabilities. The financial results of the rest of the hedging transactions are recorded in the "financing expenses" category.

ZIM

ZIM is engaged in the provision of global shipping services, where most of its revenues are denominated in U.S. dollars and some of its expenses are in different currencies. ZIM's functional currency is, then, the dollar. Based on the nature of its activities, ZIM is exposed to market risks which relate to changes in the exchange rates of the currencies of the various countries in which it has activities, as well as to changes in the exchange rates relating to some of the long-term loans denominated in non-dollar foreign currencies. In addition, ZIM is exposed to changes in the prices of heavy fuel oil. Most of ZIM's liabilities are in U.S. dollars and, as such, ZIM is exposed to changes in the dollar interest rate (LIBOR). As at the balance sheet date, the level of the debt bearing variable interest is 87%.

ZIM’s currency exposure is summarized on an annual basis. In cases where there are significant operational changes, ZIM updates the exposure. The hedging focuses only on currencies with respect to which ZIM believes material economic exposure exists, which are traded under perfect capital market conditions and regarding which ZIM 's Management has decided to hedge. In these cases the hedging is executed at a rate which is not less than 50% of the exposure. In addition, ZIM hedges against balance sheet exposure for a portion of the long-term loans. For purposes of managing currency risk, ZIM is in the practice of using forward contracts, currency options and SWAP transactions.

ZIM’s exposure to changes in fuel prices is summarized on an annual basis. ZIM uses SWAP transactions to hedge against these changes.

ORL

ORL's activities with respect to acquisition of crude oil, refinement thereof and sales of its derivative products in both the local and international markets, requires ORL to contend with market risks stemming from changes in crude oil prices and the products produced therefrom, changes in the shekel–dollar exchange rate, and changes in interest and inflation rates.

ICL makes use of financial instruments, including derivative financial instruments, in order to reduce the exposure to the risks described above.

Transactions in derivative financial instruments are made through banks and leading international companies and, as such, in ORL’s opinion, no credit risk is anticipated with respect thereto. ORL does not demand or provide collateral in respect of these derivatives, except for “short” transactions for crude oil and products which are executed on foreign stock exchanges (mainly the United States), regarding which ORL provides collaterals (margin) as is customary in these markets.

ORL's exposure begins at the time the price of the crude oil it acquires is set, and runs up to the time the selling prices for the products produced therefrom are determined – that is, exposure with respect to crude oil inventory and products. Such exposure is measured on a daily basis and is hedged against by means of forward contracts, SWAP transactions and options.

The maximum exposure allowed by ORL’s Board of Directors in respect changes in prices of crude oil and distillates at any given time is the lower of U.S.$20 million or one million tons of crude oil.

Occasionally, ORL uses SWAP transactions to hedge against future margins, which may decrease as a result of changes in the price of crude oil at different percentages from changes in the prices of the products produced therefrom.

Pursuant to ORL's policy which was adopted at the end of the year and was initially applied after the balance sheet date, ORL does not hedge the base inventory of raw materials, which is estimated at 600 thousand metric tons. In addition, it was decided to update the allocation price on a daily basis, in accordance with the price fluctuations, such that the impact of the daily changes in the price of crude oil on the physical inventory and the open positions will not cause a loss of more than $3 million, and on a cumulative annual basis the loss will not exceed $20 million.

ORL operates in the fuel market which is dollar-denominated and, therefore, a large part of its current assets and liabilities are in dollars or linked thereto, and most of the long-term credit is in dollars while, at the same time, its financial statements are prepared in CPI-linked shekels in accordance with Opinions of the Institute of Certified Public Accountants in Israel. For these reasons, ORL is exposed to risks deriving from changes in the shekel–dollar exchange rate.

ORL’s policy is to hedge against economic exposure caused by changes in the exchange rate as they affect current assets and liabilities (including crude oil and distillates inventories), reflected in the current cash flows, and not against the accounting exposure to changes of exchange rates in respect of long-term liabilities which are not reflected in the cash flows of the current period, but are reflected in the results of operations and affect the reported capital. The economic exposure is usually in the opposite direction to that of the accounting exposure. In order to reduce the aforementioned exposure, ORL makes use of financial instruments, such as, forward transactions, SWAPs and short sales of currencies.

Pursuant to ORL's policy, which was adopted after the period of the report, 60% of ORL's exposure is fully hedged and the remaining 40% is hedged in accordance with dynamic hedging tables which are derived from market forecasts of changes in the currency rates.

ORL has dollar loans and liabilities bearing variable interest (maximum of 3 months) based on LIBOR, and it hedges against some of this exposure through SWAP transactions and interest options.

A significant portion of ORL’s operating and maintenance expenses are, over time, linked to the Consumer Price Index. In light of the decline in the inflation rate and the forecast of a continued low rate of inflation, ORL resolved not to hedge against this risk.

ORL has an investment portfolio comprised of solid investments, mainly index-linked debentures, foreign currency-linked investments and shekel investments. No hedging is made regarding these investments.

Tower

Tower operates in a dollar environment, as most of its revenues and a significant portion of its purchases are in dollars.

Tower is exposed to market risks as a result of changes in the interest rate on loans and changes in the exchange rate of currencies in respect of the construction of FAB2.

Tower hedges against this exposure through various financial instruments, mainly collar transactions and forward contracts.

Tower is exposed to changes in the exchange rate of the shekel to the dollar in relation to the change in the Consumer Price Index, regarding the convertible debentures and options it issued. This risk is due to the fact that the liability under the debentures, the conversion rate of the debentures and the exercise price of the options are all linked to the Index, whereas Tower prepares its financial statements in dollars. Tower does not hedge against these exposures.

The main hedging against exposure to changes in the dollar exchange rates is against capitalization with respect to purchases and liabilities in connection with the construction of FAB2, and in the shekel exchange rates is in connection with receipts and payments in shekels. Tower hedges against these exposures mainly through the use of forward transactions, as necessary.

AGREEMENTS AND ARRANGEMENTS WITH THE STATE OF ISRAEL

The State of Israel is involved with the following companies, regarding which the following arrangements exist:

ICL: The State of Israel holds a "Special State Share" in the capital of ICL and a number of its subsidiaries. The Special State Share grants the government, among other things, special rights in making decisions with respect to the following matters:

Sale or transfer of ICL assets which are imperative for the State, not in the normal course of business.

Voluntary liquidation or a change or reorganization of ICL's organizational structure or a merger (except for mergers of companies controlled by ICL in which there is no impairment to the rights or powers of the State of Israel as the holder of the Special State Share).

Acquisition or holding of shares in ICL which represent 14% or more of the issued share capital of ICL.

Acquisition or holding of ICL shares constituting 25% or more of ICL's issued share capital (including supplementing the holding to 25%) even if agreement had been received in the past regarding holdings of less than 25%.

Any percentage holding in the share capital of ICL which grants the holder the right, the ability or the practical possibility of appointing, either directly or indirectly, half or more of the number of directors on ICL's Board of Directors, as they are actually appointed.

ZIM: On February 27, 2001, an Extraordinary General Meeting of ZIM approved an increase in the authorized share capital of ZIM by one share of NIS 0.03 par value, for purposes of creating a Special State Share that will grant the State rights to guarantee its crucial interests, as detailed in article 5A of ZIM's Articles of Association.

The Special State Share is non-transferable, and is designed to give the State certain rights to assure vital State interests. Except for the rights embodied therein, the Special State Share does not provide its holder with any voting or other capital rights.

On March 22, 2001, ZIM's Board of Directors decided to issue the aforementioned share on the date the State sells and transfers all of its shares (excluding the special State Share) in ZIM. At that time, certain statutory changes will go into effect, mainly in connection with the appointment of ZIM's Board of Directors.

On February 5, 2004, the State sold all its holdings, at the rate of 48.6% of ZIM's share capital, to the Corporation. Accordingly, ZIM issued the Special State Share to the State (see also the "Changes in the Investment Portfolio" section).

ORL: The State holds a 74% share. ORL's Articles of Association anchor certain rights of the Corporation, as long as it holds the majority of certain classes of ORL shares. These rights include: the right to receive a cumulative preferred dividend, a 26% share in voting rights, the right to appoint one quarter of ORL's Board of Directors and its committees, and the right to block certain investments under certain conditions. The Corporation and the State have a right of first refusal to purchase the shares of the other party.

EFFECT OF EXTERNAL AND OTHER FACTORS

A. <u>The ORL concession</u>

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 ended in October 2003.

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 – or if it is split up into two separate refineries, each of the separate refineries – was 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 of 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 these 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. The Government and ORL recorded caveats on the real estate which is the subject of the arrangement.

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). The "annual earnings before taxes" will be defined and measured based on annual, audited consolidated financial statements, and will include ORL's share in earnings or losses of subsidiary and affiliated companies having separate activities as well as capital gains and losses, however will not include gains and losses from activities through companies operating overseas or sale of the holdings in companies operating overseas.

In the year of account, ORL began paying deposits on account of the license fees under the arrangement. For 2003, ORL recorded a provision of NIS 7 million in its financial statements for the period from October 18, 2003 to December 31, 2003. The Accountant General in the Ministry of Finance notified ORL that the amount it paid was deposited in a separate account, so long as the conditions precedent stipulated in the arrangement were, in his opinion, not fulfilled. ORL responded to the Accountant General that the agreement was signed in the name of the Government after all the required approvals had been received by the parties authorized on behalf of the Government to sign it, and after it was signed, approvals of the Board of Directors of ORL and the Board of Directors of the Israeli Corporation were also received, and that upon the receipt thereof the agreement entered into effect. Therefore, the amount paid to the Government by ORL was properly paid pursuant to a valid agreement.

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).

Pursuant to the agreement, 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 2002, the Manager of the Ministry of the Interior appointed an investigation committee for the boundaries of the Municipality of Haifa, Nesher and Kiryat Ata, Zvulun and the area of the oil refineries.

During the period of the report, the Committee published its recommendations, pursuant to which the aforesaid area will be annexed to the Municipality of Haifa; the area will be administered by means of a joint governing body of the four local authorities bordering on the area, representatives of the factories operating therein, representatives of the public and representatives of Government ministries. The Committee also recommends that the governing body should handle all matters involved with running the area as an industrial area, similar to the definitions of a local industrial council in the Local Council Ordinance. The Committee further recommended that determination of the initial Municipal Tax levy shall be with the approval of the Minister of the Interior and it shall be imposed gradually (a discount shall be given which will be reduced from year to year over a 3–5 year period). ORL requested to present its position to the Minister of the Interior, which supports the establishment of a local industrial council in the area, prior to the reaching of a decision. The Minister of the Interior rejected ORL’s request for a hearing and a decision has not yet been made regarding allocation of the monopoly. If lands belonging to ORL are included within the boundaries of any local authority, ORL would be expected to be subject to Municipal Tax payments for the Haifa refinery as well. In the year of account, ORL prepared and submitted a site plan for the Haifa refinery site.

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 that it is aware that the Government and the Israel Corporation agree to act regarding the matter of the 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.

During the year of account, a petition was filed with the Supreme Court sitting as the High Court of Justice by the Israeli Society for Proper Government (hereinafter – "the Petitioner"), for the issuance of conditional and interim orders, which will direct the Prime Minister, the Minister of Finance, the Minister of National Infrastructures, the Government Companies Authority, ORL, the Israel Corporation and others, to provide reasons why they should not be prevented from acting in accordance with the arrangement and/or why they do not act to cancel the arrangement. The Petitioner's main reasons are that the arrangement negatively impacts the principle of equality and equitable allocation, and it circumvents the tender laws by granting private parties a concession to use Government assets in a process having – based on the Petitioner's contention – various deficiencies.

The Court refused to grant the Petitioner's request for interim orders which will prevent realization of the arrangement up to the time of the decision on the petition.

The Israel Corporation submitted its response to the petition, in the framework of which it expressed its position that there is no basis for the petition. ORL, in its response, objected to the petition and its reasoning and supported implementation of the arrangement.

The Petitioner once again submitted a request for interim orders which would prevent the Government from: taking steps to obtain an exemption from a tender for the arrangement, acquire or sell rights and/or shares of the Israel Corporation in ORL and to prepare a new agreement or revisions to the arrangement.

Subsequent to the balance sheet date, the Supreme Court, at the invitation of all the parties to the proceeding, including the Corporation, decided, among other things, that "the respondents are permitted to continue negotiations among themselves to change the conditions of the agreement which is being attacked by the petition and even to sign a new agreement, provided that up to the time the matter is brought before the Court for the second time no irreversible actions shall be taken and that the present situation shall continue".

On September 15, 2003, the Government decided to set up an inter-office team which will examine all of the issues affecting the ORL at this time, directing attention to the letters of the Attorney General, dated July 7, 2003 and August 13, 2003. In the decision, it was stated, among other things, that "at first, the team will examine the agreement and the alternatives thereto, including, postponement of the date of the option held by the Israel Corporation, the agreement’s conditions, including the license fees determined therein, and the valuations performed by the Government and the Israel Corporation as a result of the agreement, and shall formulate its position. Taking into account its conclusions, the team is permitted to conduct negotiations with the Israel Corporation . . .". For detail of the Government's full decision, see below.

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 Israel 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 18 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 2001, 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’s 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 Appendix C 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, optional acquisition by the Israel Corporation of one of the split-up two refineries. 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.

In June 2003, the two aggregate valuations were submitted. One from an appraiser on behalf of the Israel Corporation, pursuant to which the total value of ORL is NIS 2,234 million, and the other from an appraiser on behalf of the Government, pursuant to which the total value of ORL is NIS 2,143 million.

On August 4, 2003, the Israel Corporation notified the Government that in light of the fact that the negotiations with the Government regarding participation of the Israel Corporation in the split-up have not been completed, and due to the dates provided in the appendix to the arrangement, it has decided not to exercise the option it was granted in Appendix C to the arrangement, to participate in the split-up of ORL into two separate refineries and, therefore, the provisions of Section 4 of that Appendix shall apply, according to which the Israel Corporation shall sell to the Government or to a party which the Government shall instruct, all ORL shares owned by the Israel Corporation, within 30 days, at a price which constitutes an average between the two aggregate valuations of ORL, this being subject to certain monetary adjustments.

Nonetheless, the Israel Corporation is prepared to continue the negotiations with the Government regarding its participation in the split-up.

The Government is permitted to instruct that the execution date of the sale transaction shall be postponed for an additional period which shall not exceed two years from June 6, 2003.

The Israel Corporation clarified, in the framework of an Immediate Report, that at this point, it cannot be known whether the transaction will ultimately be consummated, taking into account, among other things, the following items:

1. The results of the judicial decision with respect to the petition filed by the Israeli Society for Proper Government (as described above in the ORL Concession section).

2. The need for approvals which according to the Government's position (with which the Israel Corporation disagrees) are required by law, including a tender exemption.

3. The results of the negotiations (if held) with the Government regarding the matter of the Israel Corporation's participation in the split-up of ORL into two separate refineries, one in the Haifa Bay and the other in Ashdod.

On September 15, 2003, the Government made the following decision: “Further to Government Decisions No. 126, dated August 22, 1999, and No. 2796, dated November 25, 2002, the decision of the Committee of Ministers for Privatization Matters MH/2, dated October 20, 2001, and the agreement signed between the Government and the Israel Corporation, dated December 2, 2002, which has not yet received all the required approvals (hereinafter – “the Agreement”), to advance the split-up of the oil refineries and the privatization thereof, in the following manner:

1. To set up an inter-office team which will include representatives of the Ministry of Finance, Ministry of National Infrastructures, Ministry of Justice and the Supervisor of Restrictive Business Practices. The work of this team will be managed by the Ministry of Finance.

2. The team will examine all of the issues affecting the oil refineries at this time, directing attention to the letters of the Attorney General, dated July 30, 2003 and August 13, 2003. At first, the team will examine the agreement and the alternatives thereto, including, postponement of the date of the option held by the Israel Corporation, the agreement's conditions, including the license fees determined therein, and the valuations performed by the Government and the Israel Corporation as a result of the agreement, and shall formulate its position. Thereafter, and in accordance with its positions, as stated, it shall examine, among other things, the most appropriate and efficient way for executing the split-up of ORL and the privatization thereof and arranging the holdings of each of the split-up refineries in investee companies, directly and indirectly by ORL. The team is authorized to make a decision regarding the matter of postponement of the date of the option, as stated, and there is no need to include this matter in the framework of the team's recommendations, as stated in Section 5.

3. Taking into account its conclusions in Section 2, the team is permitted to conduct negotiations with the Israel Corporation with respect to, among other things, split-up of ORL and the ownership structure in ORL and its investee companies, directly or indirectly, after the split-up.

4. In addition, the team will make recommendations with respect to the target structure, including supervision of prices, the reciprocal relationships which will remain between the two oil refineries, including, principles regarding the transfer of feedstock between them and between them and the petrochemicals industry and additional areas of activity for the separate refineries or for the controlling interests therein, including the dates from commencing the activities as stated.

5. The team is to submit its recommendations within 30 days for approval by the Committee of Ministers for Privatization Matters or approval by the Committee of Ministers for Society and Economic Matters, as will be determined by the Minister of Finance, and it is permitted to submit partial recommendations regarding urgent matters within 20 days. The team's recommendations regarding Section 4 may be submitted within 60 days.

6. Up to 30 days after submission of the team's conclusions, and taking such conclusions into account, the Manager of the Companies Authority shall submit, in coordination with the Supervisor of Budgets, the Accountant General, Ministry of National Infrastructures, Ministry of Justice and the Restrictive Business Practices Authority, a proposed decision to the Committee of Ministers for Privatization Matters regarding privatization of ORL by means of its split-up and sale of the Government's holdings after the split-up. The proposed decision is to relate to, among other things, to the extent necessary, the following matters:

   A. Split-up of ORL into two sister companies: ORL Haifa Ltd. (hereinafter – "ORL–Haifa") and ORL Ashdod Ltd. (hereinafter – "ORL–Ashdod"), such that all the assets, rights, liabilities and employees involved with the refining activities in Haifa shall remain in ORL–Haifa, and all the assets, rights, liabilities and employees involved with the refining activities in Ashdod shall be transferred to ORL–Ashdod.

   B. Determination of the ways for privatization and the course for sale of the Government's holdings in ORL–Haifa and ORL–Ashdod after the split-up.

Up to the publication date of the financial statements, the inter-ministerial team had not yet submitted its recommendations.

In the assessment of ORL, all that stated above regarding the arrangement, if implementation thereof is decided on 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.

The management of the Israel Corporation adopts the assessments of ORL, and believes, based on the opinion of its legal advisors, that the agreement dated December 2, 2002, is a valid agreement.

C. Pursuant to the treaty known as the Montreal Protocol, to which Israel is a party (and which was also adopted during the year of account in the Regulations accompanying Israeli domestic law), 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 $41 million and the operating earnings in respect thereof came to $9 million. Sales of methyl bromine for soil fumigation to developing countries, is expected to continue until 2015.

Recently, meetings have been held between the countries which are parties to the Montreal Treaty, regarding the possibility of changes in the rate and timing of the reduction of the manufacture and consumption of methyl bromide in the developed countries, as described above. At the end of March 2004, a meeting is to be held between the parties to the Treaty, whereat decisions are expected to be made regarding approval of the quantities for manufacture and consumption of methyl bromide for fumigation of land in developed countries which will be defined as "essential uses" over the next three years.

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 $42 million. The operating earnings with respect to these sales were $12 million.

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 awaiting the Supreme Court's decision.

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 $51 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 September 13, 2001, May 22, 2002, December 31, 2002, March 20, 2003, and December 8, 2003 monetary claims in the total amount of $150 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. On August 24, 2003, a request was filed with the court to join 62 additional plaintiffs to one of the additional claims mentioned above.

On January 15, 2004, another claim was filed against Fertilizers and many other defendants regarding property damage. The total amount of the property claims is approximately NIS 30 million.

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. In February 2002, the Israel Union for Environmental Defense (hereinafter – "the IUED") submitted a Water Appeal to the Water Tribunal, wherein it requests that the Water Commissioner be required to issue orders against two subsidiaries of ICL, obligating them, inter alia, to redress and/or to reinstate the salinity of the “Havurat Yehuda” aquifer (in which, inter alia, the “Effa 13” bore is located) to its original levels and/or take all necessary actions in order to prevent the recurrence of pollution, as stated. The appeal further requests that the orders obligate the said subsidiaries to immediately stop the permeation of industrial effluents into the sub-terrain and to pump the polluted water from the “Effa 13” as well as other bores – this in order to minimize the spreading of the pollution and to control the rising salinity levels, while utilizing the polluted water instead of unpolluted water extracted from other sources.

The managements of those subsidiaries believe that they have good arguments as to why such orders must not be issued and that the pollution was not caused by the subsidiaries. In addition, the subsidiaries’ managements claim that the Water Tribunal is not authorized to issue a ruling in this case and that IUED has no standing in this proceeding. Furthermore, another subsidiary of the Company has expressed its willingness to purchase the water from the “Effa 13” bore. The Water Commissioner has notified the Court that he does not believe that the remedies are in order, since if there was any contamination, it was terminated, and since practical solutions for the use of the aquifer water are being examined, under which a solution for the alleged contamination would be reached in any event. The hearing of the substantive arguments of the appeal has been concluded and the case is now in summations stage. As the remedies requested are very general and cannot be quantified, it is impractical to estimate, at this stage, the potential cost of the actions, if any, that the subsidiaries may be required to take.

G. Rotem Amfert Negev Ltd. (hereinafter – "Rotem"), operates under mining concessions and permits granted by the Minister of National Infrastructures and the Israel Lands Administration (hereinafter – "the Administration"), which expire in 2005. Rotem received new mining concessions for the existing fields, with minor changes, at the Zafir site (Oron – Zin) and the Rotem Plain, for the period up to 2021. The validity of the new concessions is subject to receiving a permit from the Israel Lands Administration for the same period – which is presently being attended to. In addition, Rotem received a new mining concession, for the mining of natural phosphate rock, until the end of the year 2013, with respect to the Effa field. This concession as well, is conditioned on obtaining a permit for the same period from the Israel Lands Administration – which is also being attended to. In light of the progress with respect to the receipt of authorization from the Administration, the Ministry of Infrastructures approved the Company to begin mining in the Effa field. The current concession grants the company the right to mine ores of phosphate rock, phosphate lime and minerals combined with phosphate layers and to exploit them for production and marketing. Pursuant to both the law and the concessions, Rotem is required to pay royalties to the State. Regarding the amount of royalties, there is a disagreement with respect to the rate which is not material.

H. In September 2003, a claim for compensation for personal injuries, in the amount of NIS 21 million, was filed against a number of entities, including ICL subsidiaries in the fertilizers sector. The claim was filed by the heirs of 5 employees of the Ashdod port who died from various cancer-related illnesses, which they claim were caused as a result of their exposure to radiation from, they allege, the phosphates and potash at the port. The proceedings are in the very initial stages and at the date of the financial statements a statement of defense had not yet been submitted. ICL, based on its legal advisors, believes that there is no basis for the claim, and in any event there is no room for recording a provision in the books in respect thereof.

I. In July 2003, certain shareholders of Tower filed a claim in a U.S. court against Tower, certain of its directors, certain Wafer partners and main investors, including the Israel Corporation and I.C. Tech. The plaintiffs, which have requested, among other things, that their claim be certified as a class action, have raised contentions under the U.S. Securities Law from 1934, in connection with inaccurate reports and omission of information by the defendants in material sent to the shareholders of Tower in April 2002 relating to approval of the amendment of Tower's investment agreements with its Wafer partners and main investors in capital.

Tower and the Corporation believe that the claim has no basis and they intend to vigorously oppose it.

J. In February 2004, ICL became aware that the Prosecutor of Environmental Crimes of Catalonia, Spain, initiated a criminal proceeding, in the framework of which an account was filed with the Magistrate's Court in Messarat, Spain, against a company in ICL's fertilizers sector, which operates mines in Spain, as well as against former and present managers of the said company, wherein it is alleged that managers of the company in Spain violated the local law and caused contamination of subterranean water due to permeation of salt compounds which were dumped from the mine sites during the course of many years, partly prior to the Company's acquisition of ICL Fertilizers. The Court was also requested to issue an order forbidding the continued dumping of the salt compounds. As at the date of the report, no order, as stated, was issued. ICL Fertilizers estimates, based on the opinion of its legal advisors, that the probability of such an order, as aforesaid, being issued, as this stage, is low. If an order, as stated, is issued and it is not changed during the legal process – such matter will have a material impact on the mining activities in the site.

EVENTS OCCURRING DURING THE PERIOD OF THE REPORT AND THEREAFTER

A. Millennium Investments Elad Ltd. (hereinafter – "Millennium") reported to the Corporation 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 50.3% of the share capital of the Israel Corporation.

In February 2003, the sale transaction was completed and, as a result, Mashat (Investments) Ltd. (hereinafter – "Mashat") 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.

Mashat 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), and Udi Angel.

B. During the year 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. At the end of 2002, the ICL Group executed a transaction for sale of trade receivables (securitization). The maximum sources of funds available to the Group in the framework of this transaction is $250 million. The actual sources of funds derive from the amount of the trade receivables at any time which, during the year, ranged between $210 million and $250 million. The securitization transaction replaced the two-sided transactions of discounting trade receivables (factoring), the balance of which prior to the securitization transaction was $114 million.

F. During the year of account, ICL's Board of Directors approved a plan for a private issuance of options exercisable for 25,000,000 ICL shares to a group of ICL's senior managers.

G. During the year of account, ICL's Board of Directors approved amendment of the terms of the plan covering the options issued to ICL employees in 1999, such that all employees exercising the options will be issued shares in the amount of the benefit to which they are entitled.

H. In June 2003, Tower's CEOs were changed. Commencing from this date, Mr. Carmel Vernia serves as Chairman of the Board of Directors and acting CEO of Tower.

I. On March 27, 2003, the Corporation's Board of Directors decided to distribute an interim cash dividend, in the aggregate amount of approximately NIS 98 million. The dividend was distributed on April 24, 2003.

J. On August 26, 2003, the Corporation's Board of Directors decided to distribute cash dividend, in the aggregate amount of approximately NIS 36 million. The dividend was distributed on October 2, 2003.

K. During the period of the report, Mr. Yechiel Borohoff completed his service as a director of the Corporation (substitute for Mr. Idan Ofer).

L. During the year of account, a long-term agreement was signed between ICL Industrial Products and a competitor company, Great Lakes Chemical Corporation (hereinafter – "GLCC"), for supply of bromine and bromine compounds. ICL Industrial Products and GLCC, are among the world's three largest producers of bromine at the present time.

M. In September 2003, the Corporation's General Meeting approved the appointment of Ms. Anat Keynan as an external director of the Corporation in place of Ms. Irit Isakson, and Mr. Yair Sarusi as an external director of the Corporation in place of Prof. Avishai Braverman.

In addition, Mr. Doron Ofer and Mr. Zvi Zamir ceased to serve as directors.

N. Regarding the Corporation's agreement with the banks to provide safety net for Tower, see the Section "Changes in the Investment Portfolio.

O. In January 2004, the Knesset passed the Retirement Age Law, 2004, according to which the articles of association for pension funds were changed, such that the retirement age will be gradually raised for men from 65 to 67 and for women from 60 to 62.

Pursuant to the Law, as stated, with respect to the financial years from 2004 through 2015, there will be a total allocation of NIS 3 billion for the entire economy (approximately NIS 250 million in every financial year – such amount may be transferred between financial years) for purposes of helping to solve financial difficulties resulting from the increase in the retirement age under the Law.

The criteria for use of the assistance budget, as stated, will be provided by a public committee, which will give unequivocal preference to assistance in the solution of financial difficulties in the business sector as opposed to in the public sector.

The Group has employees who took early retirement as well as other employees who will be entitled to take early retirement in the future (see Note 17 to the financial statements). The said Law, taking into account the assistance embodied therein, may have an impact on the Group's liability for employee severance benefits.

As at the date of the financial statements, the Group is unable to estimate the effect of the change in the articles of association of the pension funds on the Group's liability for employee severance benefits and the amounts of assistance which will be received, if any, and accordingly, the provision that will be required in the financial statements for 2004.

P. In January 2004, Prof. Itzhak Ben-Israel was appointed as a director of the Company.

Q. In March 2004, Mr. Ohad Marani commencing serving the Chairman of the ORL’s Board of Directors.

R. Accounting and Financial Expertise

Pursuant to a Directive of the Securities Authority, dated October 20, 2003, public companies are required to determine the minimum appropriate number of directors having accounting and financial expertise, and to make disclosure of those directors serving the company which meet this requirement. As stated in the Directive, the said directors may not fill another position in the company, and due to their education, experience or skills they must have a high level of expertise and understanding with respect to accounting, internal control and financial statement matters, which allows them an in-depth understanding of the company's financial statements and the ability to place on the "day's agenda" issues and questions in connection with the company's financial report with the aim of reaching the goal of approval and publication of correct, accurate and complete financial statements.

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

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

In making this determination, the Board of Directors took into account the size of the Corporation, the complexity of its activities, the variety of risks to which it is exposed, the control systems presently existing at the Corporation – both internal control and the audit performed by the independent auditors and the existence of Boards of Directors in the investee companies.

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

The Company's Board of Directors is of the opinion that, as at the date of the report, out of the nine members of its Board of Directors, Messrs. Idan Ofer, Zvi Itzkovitch, Udi Angel, Moshe Widman, Avi Levi, Yair Sarusi, Anat Kinyan, have the accounting and financial expertise as stated in the directive.

COMMUNITY INVOLVEMENT OF THE ISRAEL CORPORATION AND ITS SUBSIDIARIES

In 2001, the boards of directors of the Corporation, the ICL Group, Tower and Zim, formulated a strategic plan for a project of Group social and community involvement.

The boards of directors approved in the past a nationwide flagship project, the adoption of a network of care centers for children at risk operated by the Ministry of Education and the Ministry Labor. The companies selected this project based on their wish to focus, and their aspiration to be an influential player in the area of social and community involvement.

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

A care center is essentially a treatment framework and represents a model for a normal household and a proper family, and is intended for children who are 6 to 13 years old. The children who participate in the care centers are deemed to be youths at risk, whose parents are incapable of taking care of them during the day, for a variety of reasons, such as a difficult economic situation, violence, neglect, dysfunction, etc.

After the pilot period in 2001, and assimilation in 2002, in 2003 the number of care centers adopted increased, mainly in the development communities, such as: Yeruham, Be'er Sheva, Dimona, Arad, Kiryat Ata, Migdal HaEmek and Haifa (where the activities are performed together with the Navy).

The contributions to the care centers included contributions of work performed by teams of workers in the form of repairs to the care-center buildings, physical arrangements, development of the surrounding area, provision of the care centers with computer equipment, necessary electrical kitchen equipment, games and books, as well as enrichment activities, outings, and activities during the festival breaks and vacations. During the year, wherein the number of care centers adopted rose gradually, the expenses with respect to the care centers reached NIS 640 thousand, directly, plus thousands of hours which were donated by the employees.

Additional support of ICL, in the amount of NIS 0.5 million, in 2003, went to Soroka Hospital in the Negev, which serves ICL's employees, the factories, the families and the community in which the ICL companies operate. Every year, the contributions gathered are designated for construction, development, acquisitions and equipping of one of the divisions of Soroka Hospital. Children of the employees assist in various undertakings in the Hospital and in connection with summer activities.

In addition, as part of the Group's community involvement, some of the companies converted the holiday gift (on the Jewish New Year and Passover) which they were in the practice of giving to colleagues and outside entities, to food packages and gift certificates for needy families in the development communities, as well as packages of sweets for hospitalized children having cancer and those treated during the day in the Soroka Medical Center in Be'er Sheva.

The Corporation also contributed both money and cash equivalents to various organization such as: Variety, Ilan, Tel-Aviv University, Yad Sarah, the Nature and Gardens Authority, the Council for the Protected Child, and others.

In addition, the ICL Group, in cooperation with the Committee for Welfare of the Soldier adopts various military units and bases, holds family-oriented activities and contributes to soldier welfare.

ICL was a leader in bringing a branch of "INBAL" to Be'er Sheva. INBAL is a support center for sexually abused children and committed to its finance activities in the amount of NIS 50 thousand per year for five additional years. ICL was an initiator in bringing a YATAD branch to the South, for children with Down's syndrome and committed to its finance activities in the amount of NIS 20 thousand per year for five additional years. Employees and managers of ICL companies are active in public and community groups in Yeruham, Be'er Sheva, Dimona and Arad. ICL retirees are also active in the care centers, YATAD and various other volunteer groups.

The total donations made by the Group during the year of account amounted to NIS 2,700 thousand of which about NIS 640 thousand constitutes the Group's direct support of the care centers.

ADDITIONAL INFORMATION INCLUDED IN THE AUDITORS' REPORT TO THE SHAREHOLDERS

The following is a quotation from the Auditors' Opinion to the shareholders:

Without qualifying our above opinion, we direct attention to that stated in Note 18D(2) to the financial statements, regarding the petition submitted to the Supreme Court sitting as the High Court of Justice relating to the arrangement between Oil Refineries Ltd. (hereinafter – "ORL") and the Government of Israel and the Corporation, in connection with the period after the end of the concession period (October 18, 2003), regarding the possibility of splitting the refining facilities in Haifa and Ashdod into two separately owned refineries, and regarding ORL's assessments with respect to the material impact which cannot be estimated at this stage, of the aforementioned matters on its financial position.

Compensation to senior executives and the criteria of the Board of Directors in the setting thereof

In setting the compensation of senior executives, as well as the bonuses paid to them, the Board of Directors takes into consideration their operational and financial achievements, the level of their responsibility, the volume of the Corporation's activity, the specific contribution of the recipient and the meeting of targets and work plans.

The Corporation's Board of Directors expresses its appreciation to the employees and officers of the Corporation and of the Group companies for their devoted service and contribution to the advancement of the Group's operations.

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

March 28, 2004

Auditors' Report to the Shareholders of Israel Corporation Ltd.

We have audited the accompanying balance sheets of Israel Corporation Ltd. (hereinafter – "the Corporation"), as at December 31, 2003 and 2002, and the consolidated balance sheets of the Corporation and its subsidiaries as at such dates, and the related statements of earnings, changes in shareholders' equity and cash flows – Corporation and consolidated – for each of the three years the last of which ended December 31, 2003. These financial statements are the responsibility of the Corporation's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries, including those consolidated by the proportionate consolidation method, whose assets constitute 45.1% and 66.7% of the total consolidated assets as at December 31, 2003 and 2002, respectively, and whose revenues constitute 52.2%, 89.2% and 84.6% of the consolidated revenues for the years ended December 31, 2003, 2002 and 2001, respectively. In addition, we did not audit the financial statements of affiliated companies, the investment in which totaled NIS 1,176 million and NIS 1,074 million, as at December 31, 2003 and 2002, respectively, and the Corporation's share in the results of these affiliated companies was earnings of NIS 104 million, a loss of NIS 145 million and a loss of NIS 39 million, for the years ended December 31, 2003, 2002 and 2001, respectively. The financial statements of such companies were audited by other auditors whose reports thereon were furnished to us. Our opinion, insofar as it relates to amounts emanating from the financial statements of such investees, is based solely on the said reports of the other auditors. Furthermore, the data included in the financial statements relating to the net asset value of the Corporation's investments in affiliates and to its equity in their operating results is based on the financial statements of such affiliates, some of which were audited by other auditors.

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

In our opinion, based on our audits and on the reports of the above-mentioned other auditors, the financial statements referred to above present fairly, in conformity with generally accepted accounting principles, in all material respects, the financial position of the Corporation and the consolidated financial position of the Corporation and its subsidiaries, as at December 31, 2003 and 2002, and the results of the operations, the changes in the shareholders' equity and the cash flows – Corporation and consolidated – for each of the three years the last of which ended December 31, 2003. Furthermore, these statements have, in our opinion, been prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements), 1993.

As explained in Note 1D, the above-mentioned financial statements are stated in values adjusted for the changes in the general purchasing power of the Israeli currency, in accordance with Opinions of the Institute of Certified Public Accountants in Israel.

Without qualifying our above opinion, we direct attention to that stated in Note 18D(2) to the financial statements, regarding the petition submitted to the Supreme Court sitting as the High Court of Justice relating to the arrangement between Oil Refineries Ltd. (hereinafter – "ORL") and the Government of Israel and the Corporation, in connection with the period after the end of the concession period (October 18, 2003), regarding the possibility of splitting the refining facilities in Haifa and Ashdod into two separately owned refineries, and regarding ORL's assessments with respect to the material impact which cannot be estimated at this stage, of the aforementioned matters on its financial position.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 28, 2004

Consolidated Balance Sheets as at December 31

In terms of shekels of December 2003

	Note	2003 NIS millions	2002 NIS millions
Current assets			
Cash and cash equivalents			
Marketable securities	2	**171**	147
Short-term loans and deposits	3	**697**	669
Trade receivables	4	**266**	58
Other receivables	5	**1,244**	1,629
Inventories	6	**733**	854
		2,405	*2,295
		5,516	5,652
Long-term investments, loans and receivables			
Investments in affiliated companies	7	**1,200**	1,096
Investments in other companies	8	**246**	280
Deposits, loans and long-term receivables	9	**92**	81
Inventories	6	**63**	*96
		1,601	1,553
Fixed assets	10	**7,832**	8,092
Other assets and deferred expenses	11	**873**	932
		15,822	16,229

* Reclassified.

The notes are an integral part of the financial statements.

	Note	2003 NIS millions	2002 NIS millions
Current liabilities			
Short-term credit from banks and others	12	**2,661**	*3,387
Debentures convertible into shares of a subsidiary	16	**-**	358
Trade payables	13	**1,281**	1,043
Other payables	14	**1,378**	1,172
		5,320	5,960
Long-term liabilities			
Long-term liabilities to banks and others	15	**4,068**	*4,511
Debentures convertible into shares of the Corporation	16	**253**	180
Deferred taxes, net	25	**957**	1,035
Liability for employee severance benefits, net	17	**826**	707
		6,104	6,433
Contingent liabilities, commitments and concessions	18		
Debentures convertible into shares of a subsidiary	16	**314**	-
Minority interest		**1,914**	1,845
Shareholders' equity	19	**2,170**	1,991
		15,822	16,229

Idan Ofer	**Yossi Rosen**	**Avisar Paz**
Chairman of the Board of Directors	CEO	CFO

March 28, 2004

Balance Sheets as at December 31

In terms of shekels of December 2003

	Note	2003 NIS millions	2002 NIS millions
Current assets			
Cash and cash equivalents		**4**	2
Short-term loans	3	**437**	573
Other receivables	5	**5**	6
		446	581
Investments			
Investments in investee companies	7	**3,183**	2,972
Investments in other companies	8	**4**	18
		3,187	2,990
Deferred expenses		**2**	2
		3,635	3,573

The notes are an integral part of the financial statements.

	Note	2003 NIS millions	2002 NIS millions
Current liabilities			
Short-term credit from banks	12	**164**	217
Other payables	14	**25**	15
		189	232
Long-term liabilities			
Liabilities to banks	15	**989**	1,096
Debentures convertible into shares of the Corporation	16	**249**	242
Deferred taxes	25	**38**	12
		1,276	1,350
Contingent liabilities, commitments and concessions	18		
Shareholders' equity	19	**2,170**	1,991
		3,635	3,573

Idan Ofer	**Yossi Rosen**	**Avisar Paz**
Chairman of the Board of Directors	CEO	CFO

March 28, 2004

Consolidated Statements of Earnings for the year ended December 31

In terms of shekels of December 2003

	Notes	2003 NIS millions	2002 NIS millions	2001 NIS millions
Sales, work executed and services		**10,218**	9,365	8,764
Cost of sales, work executed and services	20	**7,021**	6,432	6,040
Gross profit		**3,197**	2,933	2,724
Selling, transport and marketing expenses	21	**1,671**	1,482	1,433
General and administrative expenses	22	**515**	415	421
Research and development expenses, net		**128**	132	150
		2,314	2,029	2,004
Operating earnings		**883**	904	720
Financing expenses, net	23	**(116)**	(359)	(434)
Other expenses, net	24	**(198)**	(321)	(1,058)
Earnings (loss) before taxes		**569**	224	(772)
Income tax	25	**(145)**	(189)	151
Earnings (loss) after taxes		**424**	35	(621)
Group's equity in the net earnings (losses) of affiliates, net	26	**102**	(147)	(42)
Minority interest in the net losses (earnings) of subsidiaries, net		**(201)**	(187)	383
Net earnings (loss) for the year		**325**	(299)	(280)
		NIS	**NIS**	**NIS**
Earnings (loss) per share – basic and diluted				
Earnings (loss) per share of NIS 1 par value	27	**46.97**	(43.40)	(41.62)

The notes are an integral part of the financial statements.

Statements of Earnings for the year ended December 31

In terms of shekels of December 2003

	Notes	2003 NIS millions	2002 NIS millions	2001 NIS millions
Income				
Corporation's equity in earnings (losses) of investee companies, net	26	**447**	(226)	(232)
Expenses				
General and administrative expenses	22	**4**	2	2
Financing expenses, net	23	**80**	71	43
Other expenses, net	24	**12**	5	3
		96	78	48
Earnings (losses) before taxes		**351**	(304)	(280)
Income tax	25	**(26)**	5	-
Net earnings (losses) for the year		**325**	(299)	(280)
		NIS	**NIS**	**NIS**
Earnings (loss) per share – basic and diluted				
Earnings (loss) per share of NIS 1 par value	27	**46.97**	(43.40)	(41.62)

The notes are an integral part of the financial statements.

Statements of Changes in Shareholders' Equity

In terms of shekels of December 2003

	Share capital and capital reserves	Shares of the Corporation held by a subsidiary	Adjustments arising from translation of financial statements of investees	Dividend proposed subsequent to the balance sheet date	Retained earnings	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Balance as at January 1, 2001	1,197	(7)	(156)	-	1,183	2,217
Changes in 2001:						
Net loss for the year	-	-	-	-	(280)	(280)
Issuance of shares (less issuance expenses)	277	-	-	-	-	277
Adjustments from translation of financial statements	-	-	62	-	-	62
Realization of reserves due to sale of investment	-	-	2	-	-	2
Acquisition of Corporation shares by a subsidiary	-	(14)	-	-	-	(14)
Balance as at December 31, 2001	1,474	(21)	(92)	-	903	2,264
Changes in 2002:						
Net loss for the year	-	-	-	-	(299)	(299)
Dividend proposed subsequent to the balance sheet date	-	-	-	98	(98)	-
Adjustments from translation of financial statements	-	-	27	-	-	27
Reduction of reserves due to decline in value of investment	-	-	(5)	-	-	(5)
Issuance of shares	(4)	8	-	-	-	4
Balance as at December 31, 2002	**1,470**	**(13)**	**(70)**	**98**	**506**	**1,991**
Changes in 2003:						
Net earnings for the year	**-**	**-**	**-**	**-**	**325**	**325**
Dividend	**-**	**-**	**-**	**(98)**	**(36)**	**(134)**
Adjustments from translation of financial statements	**-**	**-**	**(12)**	**-**	**-**	**(12)**
Issuance of shares	**(3)**	**3**	**-**	**-**	**-**	**-**
Balance as at December 31, 2003	**1,467**	**(10)**	**(82)**	**-**	**795**	**2,170**

The notes are an integral part of the financial statements.

Consolidated Statements of Cash Flows for the year ended December 31

In terms of shekels of December 2003

	2003	2002	2001
	NIS millions	**NIS millions**	**NIS millions**
Cash flows generated by operating activities:			
Net earnings (loss) for the year	**325**	(299)	(280)
Adjustments to reconcile net earnings (loss) to net cash flows generated by operating activities (A)	**1,589**	1,934	1,557
Net cash inflow generated by operating activities	**1,914**	1,635	1,277
Cash flows generated by investing activities:			
Investments in investee and other companies	**(42)**	(148)	(199)
Acquisition of fixed and other assets	**(614)**	(840)	(622)
Long-term loans granted	**(56)**	(23)	(15)
Sale (acquisition) of marketable securities, net	**46**	(95)	(90)
Investment grant in respect of fixed assets	**44**	56	32
Proceeds from sale of fixed and other assets	**15**	59	141
Collection of long-term loans	**19**	30	29
Collection (granting) of short-term loans and making of deposits in banks, net	**(193)**	(33)	55
Proceeds from sale of investments in investee and other companies	**38**	25	36
Acquisition of newly consolidated subsidiaries (B)	**56**	(107)	1
Proceeds from sale of investments in formerly consolidated subsidiaries (C)	**-**	(3)	-
Net cash outflow generated by investing activities	**(687)**	(1,079)	(632)
Cash flows generated by financing activities:			
Issuance of shares (less issuance expenses)	**-**	-	277
Proceeds from exercise of options granted to employees of the Corporation and a subsidiary	**3**	26	-
Acquisition of Corporation shares by a subsidiary	**-**	-	(14)
Acquisition of a subsidiary's shares by its subsidiary	**(9)**	-	-
Issuance of capital to minority shareholders of subsidiaries	**1**	-	-
Dividend paid to minority shareholders of subsidiaries	**(129)**	(121)	(112)
Dividend paid	**(134)**	-	-
Issuance of convertible debentures and receipt of long-term loans	**1,005**	1,526	1,135
Repayment of debentures and long-term liabilities	**(2,250)**	(1,723)	(1,642)
Short-term loans received (repaid), net	**303**	(251)	(286)
Net cash outflow generated by financing activities	**(1,210)**	(543)	(642)
Translation differences of cash balances in autonomous investees	**7**	3	6
Increase in cash and cash equivalents	**24**	16	9
Balance of cash and cash equivalents at beginning of the year	**147**	131	122
Balance of cash and cash equivalents at end of the year	**171**	147	131

The notes are an integral part of the financial statements.

Consolidated Statements of Cash flows for the year ended December 31 (cont'd)

In terms of shekels of December 2003

	2003	2002	2001
	NIS millions	NIS millions	NIS millions
A. Adjustments to reconcile net earnings (losses) 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	**(88)**	199	51
Minority interest in earnings (losses) of subsidiaries, net	**201**	187	(383)
Depreciation and amortization	**872**	1,004	1,833
Deferred taxes, net	**(26)**	132	(210)
Capital losses (gains), net	**(43)**	19	(45)
Inflationary erosion of long and short-term loans granted and increase in value of marketable securities, net	**(58)**	51	(20)
Inflationary erosion of loans received and of short and long-term liabilities	**(3)**	(33)	(13)
Increase in liability for employee severance benefits, net	**102**	13	53
	957	1,572	1,266
Changes in asset and liability items:			
Decrease in trade and other receivables	**598**	284	456
Decrease (increase) in inventories	**(127)**	49	39
Increase (decrease) in trade and other payables	**161**	29	(204)
	632	362	291
	1,589	1,934	1,557
B. Acquisition of newly consolidated subsidiaries			
Working capital (excluding cash and cash equivalents)	**170**	(9)	2
Investment in affiliate that became a subsidiary	**(34)**	-	12
Fixed assets, other assets and long-term receivables	**(278)**	(43)	(13)
Deferred taxes	**-**	(55)	-
Minority interest	**57**	-	-
Long-term loans	**141**	-	-
	56	(107)	1

The notes are an integral part of the financial statements.

Consolidated Statements of Cash flows for the year ended December 31 (cont'd)

In terms of shekels of December 2003

	2003 NIS millions	2002 NIS millions	2001 NIS millions
C. Proceeds from sale of investments in formerly consolidated subsidiaries			
Working capital (excluding cash and cash equivalents)	-	(4)	-
Investments, fixed assets, other assets and long-term receivables	-	3	-
Long-term liabilities	-	(2)	-
	-	(3)	-
D. Non-cash transactions			
Proceeds from sale of investments in investee and other companies	-	-	42
Proceeds from sale of fixed assets	-	-	41
Acquisition of fixed assets on supplier credit	**10**	-	-

The notes are an integral part of the financial statements.

Statements of Cash Flows for the year ended December 31

In terms of shekels of December 2003

	2003	2002	2001
	NIS millions	NIS millions	NIS millions
Cash flows generated by operating activities:			
Net earnings (loss) for the year	**325**	(299)	(280)
Adjustment to reconcile net earnings (loss) to net cash flows generated by operating activities (A)	**(304)**	366	340
Net cash inflow generated by operating activities	**21**	67	60
Cash flows generated by investing activities:			
Investment in investee and other companies	**(8)**	(19)	(6)
Long-term loans granted to investee companies	**(91)**	(143)	(310)
Collection of long-term loans from investee companies	**149**	128	-
Collection (granting) of short-term loans from/(to) investee companies, net	**116**	(23)	(492)
Proceeds from sale of investments in investee and other companies	**47**	12	148
Net cash inflow (outflow) generated by investing activities	**213**	(45)	(660)
Cash flows generated by financing activities:			
Issuance of shares (less issuance expenses)	**-**	-	277
Exercise of options granted to employees	**(3)**	(4)	-
Dividend paid	**(134)**	-	-
Short-terms loans, net	**-**	(32)	28
Receipt of long-term loans and liabilities	**328**	103	334
Repayment of long-term loans	**(423)**	(102)	(46)
Net cash inflow (outflow) generated by financing activities	**(232)**	(35)	593
Increase (decrease) in cash and cash equivalents	**2**	(13)	(7)
Balance of cash and cash equivalents at beginning of the year	**2**	15	22
Balance of cash and cash equivalents at end of the year	**4**	2	15

The notes are an integral part of the financial statements.

Statements of Cash Flows for the year ended December 31 (cont'd)

In terms of shekels of December 2003

	2003	2002	2001
	NIS millions	NIS millions	NIS millions
A. Adjustments to reconcile net earnings (loss) to net cash flows generated by operating activities			
Income and expenses not involving the flow of cash:			
Corporation's equity in undistributed losses (earnings) of investee companies, net of dividend	**(350)**	360	323
Deferred taxes, net	**26**	(5)	-
Depreciation and amortization	**1**	4	10
Capital gains (losses), net	**2**	-	(3)
Inflationary erosion of long and short-term loans granted	**2**	(4)	(4)
Inflationary erosion of long and short-term loans received	**8**	9	6
	(311)	364	332
Changes in asset and liability items:			
Decrease (increase) in other receivables	**(4)**	(1)	2
Increase in other payables	**11**	3	6
	7	2	8
	(304)	366	340

The notes are an integral part of the financial statements.

Note 1 - Financial Reporting Principles and Accounting Policies

A. Financial Statement Format

The financial statements have been prepared in conformity with the Securities Regulations (Preparation of Annual Financial Statements), 1993. The financial statement items are presented in accordance with the said Regulations except where the specific type of the Group's business warrants a different presentation.

B. Definitions

1. The Corporation – The Israel Corporation Ltd.

2. Subsidiaries – companies whose financial statements are fully consolidated with those of the Corporation, directly or indirectly.

3. Proportionately consolidated companies – companies, including partnerships, whose financial statements are proportionately consolidated, directly or indirectly, with those of the Corporation by the proportionate consolidation method.

4. Affiliated companies – companies, other than subsidiaries and proportionately consolidated companies, including partnerships, the investment in which is included, directly or indirectly, in the financial statements of the Corporation, on the equity basis.

5. Investee companies – subsidiaries, a proportionately consolidated companies or affiliated companies.

6. The Group – the Corporation and its investees.

7. Other companies – a company in which the Group has an interest at a rate which does not give it a significant influence.

8. Related parties – as defined in Opinion No. 29 of the Institute of Certified Public Accountants in Israel.

9. Interested parties – as defined in Section 1 Paragraph (1) of the Securities Law.

10. Controlling interests – as defined in the Securities Regulations – (Presentation of Transactions between a Corporation and a Controlling Interest Therein in the Financial Statements), 1996.

11. CPI – the Consumer Price Index published by the Central Bureau of Statistics.

12. Dollar – the U.S. dollar.

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

C. Use of Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions which affect reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities as at the date of the financial statements, and the reported amounts of income and expenses in the reporting period. Actual results may differ from such estimates.

D. Financial Statements in Inflation Adjusted Values

(1) General

1. 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. Financial data of the Corporation in nominal historical values appears in Note 32.

2. The adjusted values of non-monetary assets do not necessarily represent their market value or their value to the business but rather their historical cost adjusted for the changes in the general purchasing power of the Israeli currency.

3. The term "cost" in these statements means – adjusted cost.

4. All of the comparative figures of prior years (including monetary items) are also stated in terms of shekels of December 2003.

(2) Principles of Adjustment

1. Balance sheet

Non-monetary items (such as fixed assets, inventory, prepaid expenses, investments stated at cost, other assets, deferred expenses and share capital) have been adjusted on the basis of the changes in the CPI from the index published in respect of the month of the transaction, to the index published in respect of the last month of the year. Monetary items are stated in the adjusted balance sheet at their historical value. The net asset value of investments in investee companies was determined on the basis of their adjusted financial statements.

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

D. Financial Statements in Inflation Adjusted Values (cont'd)

(2) Principles of Adjustment (cont'd)

2. Statement of earnings

The statement of earnings items have been adjusted on the basis of the changes in the CPI as follows:

a) Income and expenses deriving from non-monetary items (such as depreciation, amortization, changes in inventories, prepaid expenses, deferred income etc.) have been adjusted on the basis of specific indices used in the adjustment of the related balance sheet items.
Income and expenses relating to provisions included in the balance sheet derive from the movement, in adjusted terms, of the related provisions.

b) The other components of the statement of earnings, excluding the financing item, have been adjusted on the basis of the CPI of the month of each transaction.

c) The minority interest in earnings of subsidiaries and the Group's equity in the operating results of investee companies are based on their adjusted financial statements.

d) The net financing item expresses financing income and expenses in real (net of inflation) terms as well as the inflationary erosion during the year of monetary items, gains and losses from the sale and revaluation of marketable securities and of derivative financial instruments.

e) Current income taxes include the payments on account during the year plus amounts payable at year-end. The payments on account have been adjusted based on the change in the CPI since the date of each payment, while the year-end balance payable is stated without adjustment. Therefore, current tax expense also includes the erosion of the value of the advance tax payments from the date of payment until the balance sheet date.

3. Foreign investees and adjustments on the basis of foreign currency exchange rates

Investee companies in Israel which meet the conditions of Paragraph 29 of Opinion No. 36 of the Institute of Certified Public Accountants in Israel, adjust their financial statements on the basis of changes in the exchange rate of the dollar.

The difference created in the financial statements of the holding companies between the adjustment of their equity in the net asset value of investees based on the changes in the CPI and their equity in the adjustment of the capital of the investee companies based on changes in the exchange rate is shown as "adjustments from translation of financial statements of investee companies" in the statement of shareholders' equity. The differences arising from translation of the foreign currency resources used to finance the investment in such companies, are also included in the above item.

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

D. Financial Statements in Inflation Adjusted Values (cont'd)

3. Foreign investees and adjustments on the basis of foreign currency exchange rates (cont'd)

The financial statements of autonomous foreign investees have been adjusted on the basis of changes in foreign currency exchange rates, as required by Opinion No. 36 of the Institute of Certified Public Accountants in Israel. No adjustments in respect of inflation in the foreign countries is required in respect of countries where the rate of inflation is not significant.

The financial statements of integrated foreign subsidiaries have been adjusted in accordance with changes in the CPI after having been first converted to Israeli currency as follows:

Non-monetary balance sheet items – at the exchange rates of the dates of their inception.
Monetary balance sheet items – at the exchange rates of the balance sheet date.
Statement of earnings items – at the annual average exchange rates.

Differences arising from the above are included in the financing item in the statement of operations.

E. Consolidation of the Financial Statements

1. The consolidated financial statements include the statements of the Corporation and of those investees in which the Corporation has a controlling interest. Jointly controlled investees are included by the proportionate consolidation method.

2. A list of investee companies and the rates of equity and control therein is given in an annex to the financial statements.

3. The financial statements of the subsidiaries are included in the consolidation after adjustments necessitated by the application of the uniform accounting principles used by the Group.

4. Intercompany balances and transactions have been eliminated in the consolidation, as have profits on intercompany sales, not yet realized outside the Group.

5. The consolidated statements include the proportionate part of the items of assets, liabilities, income and expenses of the proportionally consolidated investees, based on the rate of holding in each such investee.

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

E. Consolidation of the Financial Statements (cont'd)

6. (a) Goodwill, being the excess of cost of the investment in investee companies over the fair value of their identified assets net of the fair value of their identified liabilities, is presented in the item "other assets and deferred expenses".

Goodwill is amortized at an annual rate of 10%, except for the goodwill in respect of Israel Chemicals Ltd. and Dead Sea Works Ltd., which is amortized at the annual rate of 5%, in consideration of the benefits deriving from the unique concessions to use the natural resources of the State of Israel that were granted to ICL Group companies, of which the principal concession is up to 2030.

(b) The excess of the fair value of investee companies as at the acquisition date, over the cost of the investment therein, is first set-off against their intangible assets, and the remaining balance is set-off against non-monetary assets in proportion to their fair value based on the Corporation's share in equity. Any remaining balance is reflected as negative goodwill in the item "other assets and deferred expenses", and is offset from any balance of positive goodwill included therein.

(c) The excess of cost which is attributed to the assets and liabilities is recorded in the appropriate categories in the balance sheet.

7. The balance of the cost of the Company's shares acquired by a subsidiary, are presented as a deduction from the Company's shareholders' equity. In a case of sale of shares, the difference between the selling price of the shares and the cost thereof, is recorded as an addition to capital.

F. Cash and Cash Equivalents

Cash and cash equivalents, include short-term bank deposits with an original maturity, measured from the date of the investment therein, not exceeding three months.

G. Marketable Securities

Marketable securities held as short-term investments are stated at their market value as at the balance sheet date. Participation certificates in mutual funds are presented based on their redemption values. Changes in the value of such securities are fully recognized on a current basis.

Investments in debentures which the management of the investing company intends to hold until maturity, are stated at cost plus accrued interest and are included under “long-term deposits, loans and receivables”.

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

H. Allowance for Doubtful Debts

The allowance for doubtful debts is a specific allowance in respect of receivables the collection of which, in the opinion of the managements of the Group companies, is in doubt. In determining the sufficiency of the provision, the managements based themselves on, among other things, an evaluation of the credit risk based on available information regarding the financial position of the debtors, the extent of their activities and an evaluation of the collateral received from them. In addition, the financial statements include specific allowances for doubtful debts, as stated above, with respect to trade receivables included in the framework of the subordinated capital note received as part of the securitization transaction (see Note 4).

Doubtful debts which, in the opinion of the managements of the Group companies, are uncollectible, are written off in accordance with resolutions of such companies' managements.

I. Sale of Trade Receivables

Sale of trade receivables is included as a sale, only when the control and risks with respect to the financial debt are transferred to the purchasing party.

J. Inventories

Inventories are stated at the lower of cost or market, cost being determined as follows:

- Finished products and work in progress – mainly on the basis of the moving average of periodic production costs, including the cost of overburden removal. Overburden removal constitutes the costs involved in removing the first layer of ground covering the phosphates.
- Raw and auxiliary materials –by the "moving average" method.
- Maintenance materials and spare parts – by the "moving average method".
- Inventory of commercial areas intended for sale – valued at the lower of cost or market.

K. Investments in Investee Companies

1. Investments in investee companies (in the consolidated balance sheet – affiliated companies) are stated on the equity basis.

   The holding company's share is determined on the basis of the paid-up share capital as at the balance sheet date, disregarding shares held as short-term investments, but including losses from expected conversion of convertible securities issued by investee companies, if such conversion or realization is considered probable. The net asset value of investments in these investee companies is determined based on amounts reflected in the financial statements of these investees after adjustment necessitated by the application of generally accepted accounting principles.

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

K. Investments in Investee Companies (cont'd)

2. Regarding the amortization policy of goodwill – see E.6(a) above.

3. Regarding the decline in the value of investments in affiliated companies – see Section N.

L. Investments in Shares of Other Companies and in Other Partnerships

1. Marketable shares constituting a permanent investment – are stated at cost, in accordance with the principles of Opinion 44 of the ICPAI, unless there has been a decline in their value which is not of a temporary nature.

2. Non-marketable shares and investment in other partnerships – are stated at cost which in Management's evaluation does not exceed realizable value.

M. Fixed Assets

1. Fixed assets are stated at cost. Fixed assets of subsidiaries are presented on the basis of the fair value of the fixed assets on the acquisition date of the companies. A provision for decline in value is presented as a deduction from the cost of the fixed assets, as stated.

2. Fixed assets include capitalized construction costs and financing costs relating to the pre-operation period. The financing expenses are capitalized as follows:

   a) Fixed assets under construction financed by specific credit – the financing expenses attributable to such credit.

   b) Fixed assets under construction financed by non-specific credit – through use of a discount rate which is the weighted-average rate of the cost with respect to those credit sources, the costs of which were not capitalized specifically. In 2003 the discount rate was 1.73% (2002 – 3.4%).

3. The cost of assets in respect of which an investment grant was received, is stated net of the investment grant

4. Cost of improvements – the cost of maintenance and repairs, which improve the quality of products, increase life expectancy or productivity, and the renewal of fixed assets, are charged to the cost of the asset.

5. Spare parts for the plants are stated on the "moving average" basis, net of a provision for obsolescence. Those spare parts which are designated for current use are included in the "inventory" item.

6. Regarding capitalization of costs for prevention of environmental contamination – see subsection W., below.

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

M. Fixed Assets (cont'd)

7. Depreciation is calculated by the straight-line method, on the basis of the estimated useful lives of the assets.

The annual depreciation rates are as follows:

	%
Land development, roads and buildings	2–12
Plants, machinery and equipment	4–20
Dams and evaporation ponds	4–17
Heavy mechanical equipment, railroad cars and containers	10–20
Office furniture and equipment, vehicles and other equipment	6–33
Leasehold improvements	Over the lease period

8. Assets leased under capital leases are stated as property of the companies at their regular purchase price (without the financing component) and are depreciated on the basis of the usual depreciation rates applicable to such assets.

N. Decline in Value of Fixed and Intangible Assets

In the past, the Group adopted SFAS 121 of Financial Accounting Standards Board (FASB) – "Accounting Treatment of Impairment of Value of Fixed Assets, including those to be Disposed of" which related, prior to its amendment in 2002, to fixed and intangible assets, including the goodwill related thereto (hereinafter – "the Fixed Assets). Pursuant to the provisions of the above-mentioned Standard, the Group was in the practice, up to and including the financial statements for the period ended December 31, 2002, of examining, in cases where an event occurred or where there was a change in circumstances indicating the possibility that there was a decline in value of the Fixed Assets used by the Corporation, if the non-discounted cash flows expected from such assets exceeds the amount at which the assets are included in the books – an asset with respect to which the cash flows, as stated, do not cover the amount thereof as presented in the books, was reduced to the amount of its fair value, where the loss from decline in its value was recorded directly to expenses in the statement of earnings.

In 2003, Accounting Standard No. 15 of the Israeli Accounting Standards Board (hereinafter – "the Board") – "Decline in Value of Assets", became effective. This Standard, which is based on International Accounting Standard No. 36, requires a periodic assessment – at each balance sheet date – of the need for a provision for decline in value of the company's non-monetary assets – fixed assets and identifiable intangibles, including goodwill, as well as investments in affiliated companies. Adoption of the Standard is required in financial statements prepared for periods beginning on or after January 1, 2003. Pursuant to the provisions of the Standard, if any events have occurred or changes in circumstances have taken place, which might indicate that there has been a decline in value of one or more of the above assets, the Corporation is required to evaluate whether the carrying value of the investment in the asset is recoverable from the cash flows anticipated from that asset, and, if necessary, to record a provision for decline in value up to the amount needed to adjust its carrying value to its recoverable value. The loss from decline in value is recorded directly in income.

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

N. Decline in Value of Fixed and Intangible Assets (cont'd)

The recoverable amount of an asset is determined as being the greater of the asset’s net selling price and its value in use to the company. The asset’s value in use is determined according to the present value of anticipated cash flows from the continued use of the asset, including those expected at the time of its future retirement and disposal.

O. Other Assets and Deferred Expenses

The amortization policy is as follows:

Goodwill – see E.6.(a) above.

Debenture issuance expenses – over the remaining life of the debentures, computed separately for each series, based on the outstanding balance of the debentures.

Concessions – amortized over the period of the concessions.

Other assets and deferred expenses – by the straight-line method over 5 to 10 years.

P. Deferred Taxes

1. The Group companies create deferred taxes in respect of temporary differences between the value of assets and liabilities for financial reporting purposes and for tax purposes. Such tax allocation is effected in respect of temporary differences relating to assets, the consumption or depreciation of which, is allowable as an expense for tax purposes. The deferred taxes are computed by the liability approach using the tax rates that will be in effect at the time of the utilization of the deferred tax liability or of the realization of the deferred tax asset, as such rates are known proximate to the date of approval of the financial statements.

   The main items for which deferred taxes were not created are:

   1) The investment in investee companies, which it is the intention of the Corporation to hold and not to sell.

   2) Deferred tax assets, arising from timing differences, where the probability of the realization of the asset is in doubt.

2. The Group may be subject to additional tax, upon the distribution of dividends among the Group companies which originate from an "approved enterprise". No provision for such possible tax additions is included in the financial statements, since it is the policy of the Group companies, not to distribute dividends which involve additional tax to the receiving company in the foreseeable future.

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

Q. Convertible Debentures

Convertible debentures are included according to the probability of their conversion as provided in Opinion No. 53 of the Institute of Certified Public Accountants in Israel. Debentures, the conversion of which is not anticipated, are included as liabilities at their liability value. Debentures, the conversion of which is anticipated, are included between the long-term liabilities and shareholders' equity, at the higher of their liability value or their capital value.

R. Employee Pension Plan

1. A subsidiary of Israel Chemicals Ltd. has a liability for employee pension payments. Set forth below are the measurement principles used by the company. Regarding the pension plans and pension fund assets, see Note 17, below.

    A. The net pension expenses for each accounting period consist of the following components:

        1) Current service costs – the actuarial increase in the pension liability relating to employee pension benefits in respect of the period of the report.

        2) Current interest costs – the increase in the pension liability due to the passage of time.

        3) The expected return on the fund's assets.

        4) Actuarial losses (profits) recognized during the period, as described in C., below.

    B. The net pension liability (or the net pension fund assets), included in the balance sheet, reflects the difference between the following two components, computed as stated below:

        1) The liability for pension payments – computed on the basis of the liability at the beginning of the period, plus the current service costs and the current interest costs (as stated in A., above), net of pension payments made during the period.

        2) The pension fund assets – computed on the basis of the assets at the beginning of the period, plus the expected return on the fund's assets (as stated in A., above) and deposits in the fund during the period, net of pension payments made during the period.

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

R. Employee Pension Plan (cont'd)

C. The difference, as at the balance sheet date, between the net pension liability, computed as stated in B., above, and the actuarial liability net of the fair value of the pension fund assets at the same date reflects the balance of actuarial gains or losses which are deferred and are not recognized immediately in the financial statements.

These deferred actuarial gains or losses (that derive from the difference between the amounts of the liabilities and the difference between the amounts of the assets, as stated above) are calculated on an annual basis at the end of each year and are recorded, in part, on the statement of earnings in the following year, if and only if, at the end of the current reporting year, they amount to more than 10% of the greater of the (1) the actuarial liability for pension payments; or (2) the fair value of the pension fund assets.

The amount in excess of 10%, as stated above, is recorded on the statements of earnings, commencing from the following year, in equal annual installments over the anticipated period of employment (16 years) of the subsidiary's employees, who are members of the plan.

2. Regarding the rest of the Groups' pension plans – a full liability was included, based upon an actuarial calculation as at the balance sheet date.

S. Recognition of Income

Income from sales, net of discounts given, is recognized upon the later of delivery to the customer or transfer of ownership to the customer.

T. Research and Development Costs

Research and development costs, are charged to expense as incurred, and are presented in a separate category in the statement of earnings after the gross profit.

U. Shipping Expenses

Shipping expenses are included in the category "selling and marketing" expenses.

V. Environmental Costs

The ongoing cost of maintenance and operation of facilities for the prevention of environmental pollution and projected provisions for environmental rehabilitation costs stemming from current or past activities, are charged to expense as incurred. Costs of constructing facilities to prevent pollution, which increase the life expectancy of a facility or its efficiency, or decrease or prevent pollution, are charged to the cost of the fixed assets and are depreciated according to the usual depreciation rates used by the Group.

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

W. Presentation of Transactions between the Corporation and its Controlling Interest

Transactions between the Corporation and the its controlling interest are presented in accordance with the Securities Regulations (Presentation of Transactions between a Company and a Controlling Therein in the Financial Statements), 1996. Therefore, the difference between the consideration received from the sale of an asset to the controlling interest and the asset's carrying value, is recorded in Corporation's shareholders' equity section.

X. Earnings (Loss) Per Share

Earnings (loss) per share have been computed in accordance with Opinion No. 55 of the Institute of Certified Public Accountants in Israel. The calculation of the basic earnings (loss) per share took into account convertible securities issued by the Corporation if their conversion or exercise is deemed probable under criteria stipulated in the Opinion. In calculating the diluted earnings (loss) per share, convertible securities issued by the Corporation and its investee companies that were not taken into consideration when calculating the basic earnings (loss) per share, were taken into consideration if their conversion or exercise does not increase the earnings (decrease the loss) per share (anti-dilutive effect).

Y. Rates of Exchange and Linkage

Assets and liabilities denominated in or linked to foreign currency are stated in the balance sheet at the representative exchange rates published by Bank of Israel as at the balance sheet date.

Assets and liabilities linked to the CPI are stated in accordance with the specific linkage terms relating to each asset or liability.

Details of the CPI and dollar exchange rates:

	As at December 31		% of change during the year		
	2003	**2002**	**2003**	**2002**	**2001**
CPI – in points	**106.16**	108.20	**(1.89)**	6.50	1.41
Exchange rate of U.S. $1 (in NIS)	**4.379**	4.737	**(7.56)**	7.27	9.28

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

Z. Derivative Financial Instruments

Gains and losses from hedging transactions on existing assets or liabilities are recognized upon the realization of such assets and liabilities. Gains or losses from the hedging of firm undertakings to buy or sell, are deferred and are recorded in income at the time of the recognition of the results of the purchase or sales transaction, or are recorded in the financing item in cases where the transaction is not expected to be executed. The net amount of premiums paid for options, is charged to financing expense over the term of the options.

Derivative financial instruments, which do not derive from hedging transactions, as stated, are presented in the balance sheet based on their fair value. Changes in the fair value are recorded in the statement of earnings in the period in which they occur. The fair value of derivative financial instruments is determined based on their market value, and in the absence of such a price, the fair value is determined based on a valuation model (see also Note 30).

ZA. Disclosure of the Effect of New Accounting Standards in the Period Prior to Their Application

1. In 2001, the Israel Accounting Standards Board (hereinafter – "the Board") published Accounting Standard No. 12 – Discontinuance of Adjustment of Financial Statements. Pursuant to this Standard, commencing January 1, 2003, the adjustment for inflation of financial statements was to be discontinued.

   The effect of Standard No. 12 depends on the rate of inflation and on the sources of financing of the Corporation and the investee companies.

   In addition, Accounting Standard No. 13 – Effect of Changes in Exchange Rate of Foreign Currency 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.

   The Standard provides rules for classifying outside activities as an autonomous investee entity overseas or as an integrated entity based on the indicators listed in the Standard and use of discretion, as well as the manner for translating financial statements of autonomous investee entities as stated.

   The goodwill created on the acquisition of an autonomous investee entity overseas is to be treated as an asset of that autonomous investee entity overseas and is to be translated based on the closing exchange rate, this being different than the rules presently in effect pursuant to which goodwill is translated based on the rate of exchange on the execution date of the transaction.

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

ZA. Disclosure of the Effect of New Accounting Standards in the Period Prior to Their Application (cont'd)

Translation of the financial statements of an autonomous investee entity overseas is to be made based on the rate of exchange on the execution date of the transaction or, due to practical reasons, based on an average rate of exchange for the period, this being different than the rules presently in effect pursuant to which translation of the statements is executed based on the closing exchange rate.

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

In the Company's estimation, since it adjusts its financial statements in accordance with the changes in the exchange rate of the dollar, these Standards are not expected to have a significant impact on the financial statements.

2. In March 2004, the Israeli Accounting Standards Board published Accounting Standard No. 20, regarding the amortization period for goodwill. The Standard provides that goodwill is to be amortized over its useful life, in a systematic manner. The amortization period is to reflect the best estimate of the period in which future economic benefits are expected to derive from the goodwill, however such period is not to exceed 20 years from the initial date of recognition. The Standard applies to financial statements for periods beginning on January 1, 2004 and thereafter.

   A change in the amortization period for goodwill balances as at January 1, 2004, is to be treated prospectively as a change in accounting estimate ("from here on"). Goodwill balances, as stated, are to be amortized in a systematic manner over the balance of the period remaining to complete the amortization period determined.

   In the estimation of the Company, application of the Standard will not have a material impact on the Company's financial position or the results of its operations.

Note 2 - Marketable Securities

	Consolidated	
	2003	**2002**
	NIS millions	**NIS millions**
Shares and share option warrants	**52**	44
Mutual fund participation certificates	**42**	22
Short-term treasury notes and debentures	**401**	481
Corporate debentures	**202**	122
	697	669

Note 3 - Short-Term Loans and Deposits

	Consolidated		Corporation	
	2003	**2002**	**2003**	**2002**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**
Subsidiaries	**-**	-	**437**	573
Deposits with banks	**229**	18	**-**	-
Others	**37**	40	**-**	-
	266	58	**437**	573

Note 4 - Trade Receivables

A. Composition

	Consolidated	
	2003	**2002**
	NIS millions	**NIS millions**
On open account (1)	**706**	1,063
Subordinated capital note and receivables in respect of sale of trade receivables (2)	**558**	596
Post-dated checks	**38**	30
	1,302	1,689
Less – allowance for doubtful debts	**58**	60
	1,244	1,629
(1) Including discounted notes	**81**	57

Companies in the Group are in the practice of discounting a portion of the notes receivables with banks and executing transactions guaranteeing payment of such notes. With respect to that portion of the notes receivable regarding which the banks have no right of recourse, the proceeds were deducted from the balance of the customer receivables. The remainder of the discounted notes regarding which the bank has a right of recourse, is presented in the "trade receivables" category while, at the same time, the credit received from the bank is presented in the "short-term credit from banks" category.

Note 4 - Trade Receivables (cont'd)

(2) Sale of trade receivables as part of a securitization transaction

	2003	2002
	NIS millions	NIS millions
Trade receivables included as part of the securitization transaction at the balance sheet date	**1,560**	1,027
Less proceeds in respect of these trade receivables, net*	**1,043**	713
Subordinated capital note	**517**	314
Trade receivables sold and for which the consideration was received after the balance sheet date, net	**41**	282
Subordinated capital note and receivables in respect of sale of trade receivables	**558**	596

* As at the balance sheet date, the proceeds received in respect of sale of the trade receivables amounts to NIS 1,002 million (December 31, 2002 – NIS 431 million).

In December 2002, ICL and certain of its subsidiaries (hereinafter – "the Companies") entered into a securitization agreement, under which the Companies are to sell all their trade receivables to a foreign company which was set up specially for this purpose and which is neither owned nor controlled by the ICL Group (hereinafter – "the Acquiring Company").

The Acquiring Company finances acquisition of the debts by means of a loan received from a financial institution, which is not related to ICL, that finances the loan out of the proceeds from the issuance of commercial paper on the U.S. commercial paper market. The repayment of both the commercial paper and the loan are backed by credit lines from a banking consortium organized by Bank of America Securities.

The expected amount of the financial resources that will be available for acquiring the trade receivables of the Companies is approximately $250 million. The acquisition will be on an ongoing basis, which will enable the Acquiring Companies to utilize the proceeds received from customers whose debts were sold, to acquire new trade receivables.

The Companies will sell their trade receivables to the Acquiring Company during a period of one year from the closing date of the transaction. This period may be extended, subject to the approval of all parties, for a maximum of four additional one-year periods. Each of the parties may terminate the period upon compliance with the terms stipulated in the various agreements.

The selling price of the trade receivables is based on the balance of the related debt, discounted by an amount based on the anticipated period from the sale until repayment.

Note 4 - Trade Receivables (cont'd)

Upon acquisition of the trade receivables, the Acquiring Companies pay most of the balance in cash and the remainder in a subordinated note, which is paid after collection of the related debt. The rate of the cash consideration varies according to the composition and behavior of the customer portfolio.

The Companies shall bear all losses incurred, if any, by the Acquiring Companies as a result of trade receivables sold under the securitization transaction and not repaid, all up to the aggregate balance of the debt not yet paid, which is included in the subordinated liability.

The sale is final. The Acquiring Company has no right of recourse to the Companies in respect of amounts paid, with the exception of debts in respect of which a commercial dispute arises between the Companies and their customers (i.e., a dispute involving a claim concerning the failure of the seller to fulfill the terms of the product supply agreement, such as: supply of the wrong product, supply of a defective product, overdue supply, etc.).

The Companies will handle collection of the trade receivables included in the securitization transaction, on behalf of the Acquiring Company.

The main principle of the accounting treatment for sale of the trade receivables within the framework of a securitization transaction is that sale of the trade receivables is recognized only for that part in respect of which the control and risks have passed irrevocably to the acquirer. Accordingly, the balances of trade receivables sold and for which the consideration has been received in cash and/or by way of an irrevocable undertaking, have been eliminated. In respect of that part of the trade receivables included in the securitization transaction and not recognized as a sale, a subordinated note has been recorded for the amount of the difference between the balance of the trade receivables included in the securitization transaction and the aforesaid consideration and the list of debtors in respect of the sale of trade receivables, which have been sold and the consideration in respect thereof was received subsequent to the balance sheet date.

A loss resulting from sale of the trade receivables is recorded in the statements of income at the time of the sale in financing expenses.

In the agreement, ICL undertook to comply with certain financial ratios, according to which the ratio of the net debt to shareholders' equity will not exceed 2.1 and the ratio of the net debt to EBITDA will not exceed 4.75. If ICL does not comply with the aforementioned ratios, the Acquiring Company is allowed to stop acquiring new receivables (without this affecting existing acquisitions). ICL is in compliance with these financial ratios.

Note 5 - Other Receivables

	Consolidated		Corporation	
	2003	**2002**	**2003**	**2002**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**
Subsidiaries	**-**	-	**-**	1
Affiliates	**5**	8	**5**	5
Government agencies	**288**	462	**-**	-
Investment grants receivable	**45**	57	**-**	-
Prepaid expenses	**154**	125	**-**	-
Employees	**11**	6	**-**	-
Deferred taxes	**105**	82	**-**	-
Other receivables	**125**	114	**-**	-
	733	854	**5**	6

Note 6 – Inventories

	Consolidated	
	2003	***2002**
	NIS millions	**NIS millions**
Finished products	**1,494**	1,422
Work in progress	**295**	289
Raw and auxiliary materials	**374**	345
Maintenance materials and spare parts	**355**	388
Payments on account and goods in transit	**14**	24
	2,532	2,468
Inventory of commercial space held for sale (1)	**27**	29
	2,559	2,497
Less non-current inventory (present in fixed assets)	**91**	106
Less long-term inventory	**63**	96
	2,405	2,295
(1) After deduction of provision for decline in value of	**15**	15

* Reclassified.

Note 7 - Investments in Investee Companies

A. Composition

	Consolidated		Corporation	
	2003	**2002**	**2003**	**2002**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**
Investment in shares (1)				
Cost of shares (including earnings accumulated up to January 1, 1992), net	**1,282**	1,254	**2,537**	2,582
Earnings and capital reserves accumulated since January 1, 1992	**(7)**	(12)	**127**	(156)
	1,275	1,242	**2,664**	2,426
Provision for decline in value of investment in an affiliate	**(87)**	(182)	**-**	-
	1,188	1,060	**2,664**	2,426
Loans and capital notes (2)	**12**	36	**519**	546
	1,200	1,096	**3,183**	2,972

(1) Investment in shares

	Consolidated		Corporation	
	2003	**2002**	**2003**	**2002**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**
Subsidiaries	**-**	-	**1,688**	1,568
Proportionately consolidated companies	**-**	-	**24**	20
Affiliated companies	**1,188**	1,060	**1,007**	851
	1,188	1,060	**2,674**	2,439
Investment in shares of the Corporation held by a subsidiary	**-**	-	**(10)**	(13)
	1,188	1,060	**2,664**	2,426

Note 7 - Investments in Investee Companies (cont'd)

A. Composition (cont'd)

(2) Loans and capital notes

	Consolidated			Corporation		
	Weighted average interest rate as at December 31 2003	2003	2002	Weighted average interest rate as at December 31 2003	2003	2002
	%	NIS millions	NIS millions	%	NIS millions	NIS millions
Israeli currency						
CPI linked	4.5	**8**	-	-	**3**	70
In foreign currency	3.1	**4**	36	1.1	**46**	15
In Israeli currency		**-**	-	-	**470**	461
		12	36		**519**	546
Repayment schedule –						
Not yet determined		**12**			**519**	
		12			**519**	

(3) Including goodwill not yet fully amortized, as follows:

	Corporation	
	2003	2002
	NIS millions	NIS millions
Subsidiaries		
Initial amount	**151**	115
Unamortized balance	**108**	79

Note 7 - Investments in Investee Companies (cont'd)

B. Changes in Investments

	Consolidated	Corporation
	2003	2003
	NIS millions	NIS millions
Balance at beginning of year	**1,096**	**2,972**
Changes during the year:		
Investments	**51**	**18**
Proceeds from realization of investments	**(56)**	**(47)**
Capital gains (losses), net	**53**	**(2)**
Equity in earnings, net	**4**	**447**
Affiliated company which became a subsidiary	**34**	**-**
Dividends	**(10)**	**(95)**
Adjustments arising from translation of financial statements	**(47)**	**(94)**
Changes in loans, net	**(24)**	**(27)**
Adjustment of provision for decline in value of investment in affiliate	**98**	**-**
Other changes, net	**1**	**11**
Balance at end of year	**1,200**	**3,183**

C. Marketable Securities

	2003		2002	
	Market value	Book value	Market value	Book value
	NIS millions	NIS millions	NIS millions	NIS millions
Subsidiary	**2,030**	**1,286**	1,553	1,288
Affiliated company	**470**	**141**	185	171

D. Dividends

	Consolidated		Corporation	
	2003	2002	2003	2002
	NIS millions	NIS millions	NIS millions	NIS millions
From subsidiaries	**-**	-	**85**	71
From proportionately consolidated companies	**-**	-	**-**	12
From affiliated companies	**10**	9	**10**	9
	10	9	**95**	92

Note 7 - Investments in Investee Companies (cont'd)

E. Supplementary Data on Investments

1. Investments

A. Tower Semiconductor Ltd. (hereinafter – Tower)

(1) During the current year, Tower, Israel Corporation Technologies (I.C. Tech) Ltd. (hereinafter – "I.C. Tech"), a company wholly owned and controlled by the Corporation, the primary Wafer partners in Tower, 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 accordance with which, the condition of reaching the milestone was removed, as were the other directives which Tower did not meet.

(2) Pursuant to amendment of the agreements, during the current year the Investors completed their investments in Tower pursuant to the original agreement to which they committed, in the amount of $41 million in two increments (of which $7.3 million by I.C. Tech).

(3) In exchange for the first part of the investment, in the amount of $24.6 million (of which $4.4 million by I.C. Tech), the Investors received ordinary shares of Tower based on a price of $3 per share.

As a result of the investment, I.C. Tech's share in Tower declined from 28.5% to 26.8%. The capital loss incurred by the Group, in the amount of NIS 9.3 million, was included in the Corporation's financial statements in 2002.

(4) In respect of the second part of the investment, in the amount of $16.4 million, Tower issued shares to the Investors, subsequent to the balance sheet date, based on a price of $7 per share (based on the price per share in a public issuance – see section 5, below).

(5) Subsequent to the balance sheet date, in January 2004, Tower issued, by means of a prospectus published to the public in the United States, approximately 11.4 million ordinary shares at a price of $7 per share for an aggregate consideration of $75.2 million (including partial execution of the options granted to the underwriters).

As a result of the public issuance, and after issuance of the share capital to the investors in respect of the fifth milestone, I.C. Tech's share in Tower declined to 21.8%, and the Group realized a capital gain of $7 million.

(6) Pursuant to amendment of the agreements, the primary Wafer partners were given an option to convert, during January 2006, the amount of $13.2 million out of the amounts recorded as long-term customer advances, into ordinary shares of Tower at a price to be based on the average price per Tower share during the period of 15 trading days which preceded December 31, 2005.

Note 7 - Investments in Investee Companies (cont'd)

E. Supplementary Data on Investments (cont’d)

1. Investments (cont’d)

a. Tower Semiconductor Ltd. (hereinafter – Tower) (cont’d)

(7) The primary Wafer partners agreed to postpone use of the amounts recorded as long-term customer advances, to which they are entitled in respect of their purchases in the years 2004–2006 and, in exchange, they were granted an option to convert any amount which may be used out of the advances in every quarter in these years into shares of Tower based on the average trading price of Tower's shares on the stock exchange on those dates. Alternatively, amounts not converted to shares as stated above, will be paid by Tower on December 31, 2007. Such amounts will bear interest of Libor + 2.5% which is to be paid on a current basis.

(8) In November 2003, Tower reached agreement with the banks regarding amendment of its credit facility agreements for the financing of FAB2. In the framework of the amendment, the Israel Corporation gave the banks a letter of commitment as part of the arrangements required by them for the granting of a security net by the main shareholders of Tower as a condition for the continued provision of financing by the banks to Tower.

1. In the letter of commitment it was provided that the security net to be provided by the Israel Corporation relates to Tower's obligation to raise additional funds, in the amount of $152 million, by December 31, 2005 (in accordance with the dates and conditions as stated in the credit agreement) (hereinafter – "the Additional Capital").

2. Pursuant to the letter of commitment, the banks are permitted, under certain conditions, to require Tower to issue a prospectus to its shareholders through an issuance of rights to acquire debentures convertible in shares of Tower as well as the issuance of options for the acquisition of Tower shares, all of this on the conditions provided in the letter of commitment. The amount of the issuance shall not exceed the amount which Tower did not succeed in raising in accordance with its obligation to the banks up to that time. The Israel Corporation committed to the banks that it will exercise its full rights and will even purchase in a private issuance of securities as stated, in respect of those shareholders who do not exercise their rights, such that at the end of the period and with the addition of the amounts to be provided by the banks as stated below, 100% of the amounts which Tower was required to raise, as stated above, will be raised.

   Should Tower not be successful in issuing a prospectus on the required dates, the Corporation shall invest in Tower by means of a private offering of convertible debentures on the same terms which would have been included in a public issuance.

Note 7 - Investments in Investee Companies (cont'd)

E. Supplementary Data on Investments (cont'd)

1. Investments (cont'd)

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

3. The total amount of the Corporation's liability to invest in Tower pursuant to the letter of commitment shall not exceed $50 million. The letter of commitment provides, that the investments of certain main shareholders in Tower, if made, shall be considered as fulfillment of the Corporation's liability under the letter of commitment (as detailed in the letter of commitment).

   The Corporation's liability under the letter of commitment is given against the liability of the banks to provide, concurrent with execution of an investment by the Corporation, additional financing to Tower, in the amount of $43 million (in addition to credit of $500 million as provided in the credit agreement). The letter of commitment states that the banks will provide the financing as stated, in proportion to the amounts which the Corporation and certain shareholders provide, such that against every $50 provided by the Corporation and those shareholders, the banks will provide additional credit to Tower of $43.

   In any event, the Corporation is not required to invest more than 50/93 of the amount which is to be raised at that time (including its share in respect of exercise of its rights as a shareholder).

4. The letter of commitment states, subject to the conditions therein, that certain amounts which the Corporation chooses to invest in Tower, whether through a public issuance or a private offering, even if the bank does not exercise its right to realize the security net, shall be taken into account regarding the total amount of its liability under the letter of commitment, and this investment shall be considered as part of the Additional Capital.

5. The letter of commitment shall expire on the earlier of the following dates: (a) completion of the raising of $152 million by Tower as Additional Capital, as defined in Tower's credit agreement; (b) June 30, 2006; or (c) the date on which the Corporation (and the main shareholders in Tower) invests $50 million pursuant to the terms of the security net.

6. Tower's credit facility with the banks includes, among other things, a condition according to which a sale of Tower shares in excess of amounts determined in the agreement will convey to the banks the right to call the credit granted to Tower for immediate repayment. The said condition includes the gradual reduction over the years of the amount of shares the sale of which is limited. In any event, this limitation will not include Tower securities acquired by the Corporation or Group companies after the signing of the letter of commitment.

Note 7 - Investments in Investee Companies (cont'd)

E. Supplementary Data on Investments (cont'd)

1. Investments (cont'd)

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

7. Tower agreed to indemnify the Corporation in the amount of up to $100 million, for expenses and damages stemming from claims caused to the Corporation as a result of its commitment to the banks to provide the security net.

8. As at the signing date of the financial statements, due to raising the amount of $83.1 million (not including issuance expenses) by Tower by means of the prospectus as noted in Section (5), the Corporation's liability under the above-mentioned letter of commitment decreased to $37.0 million.

(9) Tower requested that the Investments Center approve the revised plan for construction of FAB2, in light of the fact that the period for the investments in FAB2 will be extended for more than 5 years from the date of receipt of the original approval from the Investments Center.

Tower's Management estimates, based on discussions held with the Investments Center, that the reaching of a satisfactory arrangement regarding this matter is reasonable.

(10) In the second half of the year of account, the Corporation included its share in Tower's losses, in the amount of NIS 98 million and, at the same time, it reduced the provision for decline in value of the investment in Tower (which was recorded in 2002) by the same amount. The Corporation's share in Tower's losses included for the year of account, totaled NIS 40 million, net.

b. In July 2003, the I.C. Tech invested $1.5 million in Oren Semiconductors Inc. (hereinafter – "Oren"). In addition, the Corporation converted a shareholders' loan, in the amount of $2.5 million, into shares of Oren. As a result of the investment and conversion of the loan, the Group's share in Oren's shareholders' equity increased from 17.7% to 23.5% and an excess of cost over book value was created, in the amount of $2.7 million, which was allocated to intangible assets. Up to the time of the increase in the rate of holdings, the investment in Oren was presented based on the cost method of accounting, whereas commencing with the third quarter of the period of the report, the investment is presented based on the equity method of accounting.

c. During the year of account, the Corporation transferred the amount of $7.3 million to Sorbie Holdings Ltd. (hereinafter – "Sorbie") as a shareholders' loan.

Note 7 - Investments in Investee Companies (cont'd)

E. Supplementary Data on Investments (cont'd)

1. Investments (cont'd)

d. In October 2003, Sorbie and PSINet Europe B.V. (hereinafter – "PSINet"), affiliated companies of the Corporation (hereinafter – "the Companies"), entered into an agreement with other shareholders in the Companies (hereinafter – "the Partners"), pursuant to which Sorbie acquired its shares from the Partners. In addition, the Partners transferred to the Corporation and the other shareholders in PSINet, their shares in PSINet. In exchange, the Partners received two subsidiaries of the Companies. As a result of the transaction, the rate of the Corporation's holdings in Sorbie and PSINet increased to 61.4%.

With the increase in the rate of holdings, an excess of cost over book value, in the amount of NIS 36 million, was created. Commencing with the fourth quarter of the year of account, the financial statements of the Companies are consolidated with the Corporation's financial statements.

Set forth below is condensed financial statement data of the Companies:

	December 31 2003
	NIS millions
Balance sheet	
Current assets	**123**
Fixed assets, net	**263**
Current liabilities	**(239)**
Long-term liabilities	**(198)**

	For the three months ended December 31 2003
	NIS millions
Statement of earnings	
Sales	**116**
Cost of sales	**82**
Net loss	**4**

Note 7 - Investments in Investee Companies (cont'd)

E. Supplementary Data on Investments (cont'd)

1. Investments (cont'd)

e. Subsequent to the balance sheet date, in February 2004, the Corporation acquired all of the State's shares in ZIM Israel Navigation Co. Ltd. (hereinafter – "ZIM"), at the rate of 48.6% of ZIM's share capital, for an aggregate consideration of NIS 506.4 million. As a result of the acquisition, the Corporation holds 97.5% of ZIM's share capital.

In addition, the Corporation submitted a tender to acquire the entire holdings of all of the other shareholders in ZIM which, together, hold 2.5% of ZIM's shares.

As a result of the acquisition, excess cost over book value was created to the Corporation, in the amount of NIS 41 million.

2. Sale of Investments

a. In the first quarter of the year, Kol 1 Investments in Communications (H.L.) Ltd. (hereinafter – "Kol 1"), sold all of its holdings (40%) in RSL Com Finland OY (hereinafter – "RSL"), for a consideration of €14 million (of which €3.2 million constitutes repayment of shareholders' loans). The Group realized a net after-tax gain of NIS 46 million.

b. Regarding exercise of the option to sell Oil Refineries Ltd., see Note 18.

3. Additional Information

a. ICL and certain of its subsidiaries, issued a "Special State Share", which is held by the State of Israel, for purposes of protecting the State's vital interests, and which grants to the State, among other things, special rights in making decisions with respect to the following matters:

– Sale or transfer of ICL assets which are imperative for the State, not in the normal course of business.

– Voluntary liquidation or a change or reorganization of ICL's organizational structure or a merger (except for mergers of companies controlled by ICL in which there is no impairment to the rights or powers of the State of Israel as the holder of the Special State Share).

– Acquisition or holding of shares in ICL which represent 14% or more of the issued share capital of ICL.

– Acquisition or holding of ICL shares constituting 25% or more of ICL's issued share capital (including supplementing the holding to 25%) even if agreement had been received in the past regarding holdings of less than 25%.

– Any percentage holding in the share capital of ICL which grants the holder the right, the ability or the practical possibility of appointing, either directly or indirectly, half or more of the number of directors on ICL's Board of Directors, as they are actually appointed.

Note 7 - Investments in Investee Companies (cont'd)

E. Supplementary Data on Investments (cont'd)

3. Additional Information (cont'd)

b. On February 27, 2001, an Extraordinary General Meeting of Zim approved an increase in the authorized share capital of Zim by one share of NIS 0.03 par value, for purposes of creating a Special State Share that will grant the State rights to guarantee its crucial interests, as detailed in article 5A of Zim's Articles of Association. The Special State Share is non-transferable, and is designed to give the State certain rights to assure vital State interests. Except for the rights embodied therein, the Special State Share does not provide its holder with any voting or other capital rights.

On March 22, 2001, Zim's Board of Directors decided to issue the aforementioned share on the date the State sells and transfers all of its shares (excluding the special State Share) in Zim. At that time, certain statutory changes will go into effect, mainly in connection with the appointment of Zim's Board of Directors.

On February 5, 2004, the State sold all its holdings, at the rate of 48.6% of Zim's share capital, to the Corporation. Accordingly, Zim issued the Special State Share to the State (see also Section 1.E., above).

c. In February 2003, the Extraordinary General Meeting of ICL's shareholders approved the decision of its Board of Directors, dated January 23, 2003 (hereinafter – "the Effective Date"), regarding a plan for the private allotment of 25 million options for the purchase of ICL shares to a group of senior managers in ICL and in companies it controls, including 4.8 million options to the ICL's CEO and 3.4 million options to the Chairman of ICL's Board of Directors, at no cost. Upon exercise, each option may be converted into one ordinary share of NIS 1 par value of ICL. The ordinary shares issued as a result of exercise of the options, shall have all of the same rights as ICL's ordinary shares, immediately upon their issuance. The issuance will be executed in accordance with Section 102 of the Income Tax Ordinance under the capital gains tax alternative. The options may not be exercised prior to January 1, 2006.

The options vest as follows: one third after 12 months from the Effective Date, one third after 21 months from the Effective Date and one third after 30 months from the Effective Date. The expiration date of the options is the end of 48 months from the Effective Date. In addition, rules have been established to govern the event of termination of service or employment of the option holders. The exercise price was set at NIS 4.25 per share. The theoretical economic value of each option, computed using the Black-Scholes option-pricing model as prescribed by the Directives of the Stock Exchange, was NIS 1.62 at the above date, based on the quoted price of one ordinary share of NIS 1 par value close to the date of the Board of Directors' resolution to issue the options – NIS 4.56.

d. In January 2003, ICL's Board of Directors approved the amendment of the terms of the options issued by ICL in 1999, in such a manner that employees who exercise the options will be issued shares equal to the amount of the benefit to which they are entitled.

Note 8 - Investments in Other Companies

A. Composition

	Consolidated		Corporation	
	2003	2002	2003	2002
	NIS millions	NIS millions	NIS millions	NIS millions
Investment in SQM (1)	**234**	249	**-**	-
Non-quoted shares	**8**	27	**4**	18
Limited partnerships	**4**	4	**-**	-
Total	**246**	280	**4**	18
After a provision for a decline in value of	**5**	18	**5**	4

(1) Investment in shares of SQM held by an overseas subsidiary in the ICL Group (at the rate of 8.3% in capital and 13.4% in voting). The shares are traded on the stock exchanges in Chile and New York. The market value of the shares is NIS 418 million (December 31, 2002 – NIS 246 million).

Note 9 - Deposits, Loans and Long-term Receivables

A. Linkage basis and interest rates

	Consolidated		
	Weighted average interest rate as at December 31 2003	2003	2002
	%	NIS millions	NIS millions
In Israeli currency, linked to the CPI	5.0	**45**	55
In foreign currency or linked thereto (mainly pounds)	1.8	**43**	21
In unlinked Israeli currency	1.6	**20**	22
Total (1)		**108**	98
Less current maturities		**16**	17
		92	81
(1) Including deposits in banks		**29**	55

Note 9 - Deposits, Loans and Long-term Receivables (cont'd)

B. Repayment schedule –

	Consolidated
	2003
	NIS millions
Second year	**16**
Third year	**10**
Fourth year	**4**
Fifth year	**3**
Sixth year and thereafter	**26**
Not yet determined	**33**
	92

Note 10 - Fixed Assets

Consolidated

	Balance at beginning of year	Additions (1)	Disposals	Translation differences affecting reserves	Balance at end of year
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cost					
Land, land development, roads, buildings and leasehold improvements	2,189	450	(2)	55	2,692
Installations, machinery and equipment	13,455	974	(93)	(433)	13,903
Dams and evaporation ponds	1,717	57	-	(13)	1,761
Heavy mechanical equipment, railroad cars and containers	578	19	(49)	(32)	516
Office furniture and equipment, motor vehicles and other equipment	776	66	(25)	(2)	815
	18,715	1,566	(169)	(425)	19,687
Plants under construction	409	89	-	(4)	494
Spare parts for installations	106	-	(9)	(6)	91
	19,230	1,655	(178)	(435)	20,272
Accumulated depreciation					
Land, land development, roads, buildings and leasehold improvements	930	335	(1)	29	1,293
Installations, machinery and equipment	7,989	1,154	(64)	(231)	8,848
Dams and evaporation ponds	1,179	66	-	9	1,254
Heavy mechanical equipment, railroad cars and containers	450	24	(40)	(25)	409
Office furniture and equipment, motor vehicles and other equipment	590	71	(21)	(4)	636
	11,138	1,650	(126)	(222)	12,440

(1) Includes additions in respect of companies consolidated for the first time, having a net book value of NIS 210 million.

Note 10 - Fixed Assets (cont'd)

Consolidated (cont'd)

	Net book value as at December 31	
	2003	2002
	NIS millions	NIS millions
Land, land development, roads, buildings and leasehold improvements	**1,399**	1,259
Installations, machinery and equipment	**5,055**	5,466
Dams and evaporation ponds	**507**	538
Heavy mechanical equipment, railroad cars and containers	**107**	128
Office furniture and equipment, motor vehicles and other equipment	**179**	186
Plants under construction	**494**	409
Spare parts for installations	**21**	106
	7,832	8,092

A. Land and buildings –

1. Includes land leased for periods ending, mainly, in the years between 2017 and 2047, in some cases – with an option to renew the lease.

2. Some of the freehold and leasehold land has not yet been registered in the names of the Group companies at the Land Registry Office.

3. A subsidiary in Spain has rights in real estate, designated for development in the future of new potash mines, in the amount of NIS 203 million. These rights can be used until 2063. Development of the new mines has not yet commenced and, accordingly, amortization of the real estate rights has not yet commenced.

B. The Group owns fully depreciated assets which are still in operation. As at December 31, 2003, the original cost of such assets exceeds NIS 4.8 billion.

C. Fixed assets are stated net of amortized investment grants, in the amount of NIS 1,886 million (the original amount of the investments grants – NIS 4,133 million).

D. Plants under construction – the movement represents acquisitions during the year, less transfers to fixed asset categories, net.

E. In the year of account, subsidiaries in the ICL Group recorded a provision for decline in value of production facilities, and machinery and equipment, in the total amount of NIS 92 million, this being due the discontinuance of the marketing and sale of certain products as well as due the discontinuance of use of certain parts in the production facilities.

Note 11 - Other Assets and Deferred Expenses

	Consolidated			
	2003		2002	
	Original amount	Net book value	Original amount	Net book value
	NIS millions	NIS millions	NIS millions	NIS millions
Goodwill in respect of subsidiaries	**765**	456	**726**	468
Concessions	**423**	373	**448**	411
Other deferred expenses	**107**	44	**102**	53
	1,295	873	**1,276**	932

Note 12 – Short-Term Credit from Banks and Others

	Consolidated			Corporation	
	Weighted average interest rate as at December 31, 2003	2003	*2002	2003	2002
	%	NIS millions	NIS millions	NIS millions	NIS millions
Credit from banks and financial institutions					
In Israeli currency – unlinked	5.9	**125**	47	-	-
In dollars or linked thereto	2.0	**1,422**	1,125	**-**	-
In foreign currency or linked thereto	3.5	**153**	254	**-**	-
		1,700	1,426	**-**	-
Current maturities of long-term liabilities		961	(1) 1,961	164	217
		2,661	3,387	164	217

(1) Includes current maturities of debentures, in the amount of NIS 19 million.

Regarding liens – see Note 18.

Reclassified.

Note 13 - Trade Payables

	Consolidated 2003 NIS millions	Consolidated 2002 NIS millions
Open accounts (1)	**1,275**	1,037
Checks payable	**6**	6
	1,281	1,043
(1) Includes affiliated companies	**29**	26

Note 14 - Other Payables

	Consolidated 2003 NIS millions	Consolidated 2002 NIS millions	Corporation 2003 NIS millions	Corporation 2002 NIS millions
Affiliated companies	**9**	1	**-**	-
Government agencies	**112**	129	**2**	2
Payroll and payroll related agencies	**588**	504	**-**	-
Customer advances and deferred income	**70**	32	**-**	-
Accrued expenses	**194**	137	**23**	13
Other	**405**	369	**-**	-
	1,378	1,172	**25**	15

Note 15 - Long-Term Liabilities to Banks and Others

A. Composition

	Consolidated			Corporation		
	Weighted average interest rate as at December 31 2003	2003	2002	Weighted average interest rate as at December 31 2003	2003	2002
	%	NIS millions	NIS millions	%	NIS millions	NIS millions
Currency and linkage basis						
In US dollars or linked thereto	**2.3**	**4,192**	5,534	**3.1**	**1,048**	1,208
In other currencies or linked thereto	**4.7**	**729**	814	**-**	**-**	-
In CPI linked Israeli currency	**5.4**	**108**	105	**5.4**	**105**	105
		5,029	6,453		**1,153**	1,313
Less – current maturities		**961**	1,942		**164**	217
		4,068	4,511		**989**	1,096

B. Repayment schedule:

	Consolidated 2003	Corporation 2003
	NIS millions	NIS millions
Second year	**1,327**	**205**
Third year	**750**	**205**
Fourth year	**789**	**269**
Fifth year	**395**	**196**
Sixth year and thereafter	**807**	**114**
	4,068	**989**

Regarding liens – see Note 18.

Note 16 – Convertible Debentures

	Consolidated		Corporation	
	2003	2002	2003	2002
	NIS millions	NIS millions	NIS millions	NIS millions
Presented in current liabilities				
Debentures convertible into shares of a subsidiary (2)	-	358	-	-
Presented in long-term liabilities				
Debentures convertible into shares of the Corporation (1)	**253**	180	**249**	242
Presented as quasi-capital				
Debentures convertible into shares of a subsidiary (2)	**314**	-	-	-

(1) In 2001, the Corporation issued NIS 260,000 thousand par value of convertible debentures (Series A) (hereinafter – "the Debentures") at 84.5% of their par value. The Debentures are repayable in 5 equal annual installments in June of each year from 2005 until 2009 (inclusive). The principal and interest are linked to the Consumer Price Index and bear annual interest of 2.5%. The Debentures are convertible into ordinary shares until May 31, 2009, such that each NIS 700 par value of outstanding Debentures is convertible into one ordinary share, subject to adjustments.

In the current year, H.L. Management and Consultants (1986) Ltd. (hereinafter – Management and Consultants), a wholly owned and controlled subsidiary of the Corporation, sold the balance of the Debentures acquired in the issuance, having a par value of NIS 71,188 thousand, for a consideration of NIS 69 million.

As at the balance sheet date, it is not probable that the Debentures will be converted.

(2) In October 2001, ICL raised capital by means of a private issuance of two series of debentures not registered for trading and convertible into shares of ICL. Debentures denominated in dollars of a par value of $60 million (hereinafter – "the Dollar Debentures") and debentures denominated in shekels of a par value of NIS 63.5 million (hereinafter – "the Shekel Debentures") (hereinafter together – "the Debentures") were issued for a total consideration of $75 million less issuance expenses.

The Debentures are repayable in one lump-sum payment in October 2007. The balance of the Debentures not converted or redeemed by ICL through early redemption, as noted above, will be repaid with the addition of a redemption premium at the rate of 17.3% of the principal. The principal of the Debentures, the interest and the redemption premium are linked to the exchange rate of the dollar or are denominated in dollars, as applicable. The principal of the Debentures bears interest at the rate of 1.5% per annum which is paid once a year in October.

Note 16 – Convertible Debentures (cont'd)

(2) (cont'd)

The Debentures are convertible into ordinary shares of ICL having the same rights as the existing ordinary shares, such that every NIS 5 par value of the Shekel Debentures is convertible into one ordinary share of a par value of NIS 1 and every $1.1473 par value of the Dollar Debentures is convertible into one ordinary share of a par value of NIS 1. If all the Debentures are converted into shares the total share capital of ICL will increase by about NIS 59 million.

ICL has an option, exercisable from October 2005, to redeem all or part of the Debentures, under certain circumstances, at a price which reflects an annual dollar yield of 4.1% as at the redemption date.

The owners of the Debentures have an option to redeem their Debentures in October 2003 and in October 2005, under certain circumstances, at a price which reflects the yield to early redemption and to pay the annual interest accrued. In view of the above right granted to the Debenture holders, as at December 31, 2002, the Debentures were presented under current liabilities.

In the year of account, NIS 8 million par value of the Shekel Debentures were converted into 1.6 million ordinary shares of NIS 1 par value each and $5 million par value of the Dollar Debentures were converted into 4,358 thousand ordinary shares of NIS 1 par value each. Due to the conversions, the Group’s holding in ICL decreased from 53.3% to 53.1%, and the Group realized a capital gain in the amount of NIS 3 million.

Subsequent to the balance sheet date, NIS 23.2 million par value of the Shekel Debentures were converted into 4.6 million ordinary shares of NIS 1 par value. Due to the conversions, the Group’s holding in ICL decreased to 52.9% and the Group realized a capital gain in the amount of NIS 3 million.

As at December 31, 2003, in the opinion of ICL's management, conversion of the debt is expected and, accordingly, the balance of the Debentures is presented in a separate category between the long-term liabilities and the shareholders equity at their liability value (which is higher than their capital value).

If all of the aforementioned debentures are converted and after exercise of all the options, as stated in Note 7.E.3, the Group's holdings in ICL will decrease to approximately 49.4%.

	Consolidated	Corporation
Repayment year	**2003**	**2003**
	NIS millions	**NIS millions**
Second year	51	50
Third year	51	50
Fourth year	51	50
Fifth year	50	50
Sixth year and thereafter	50	49
	253	249

Note 17 - Liabilities for Employee Severance Benefits, Net

A. Composition

	Consolidated	
	2003	**2002**
	NIS millions	**NIS millions**
Liabilities for severance benefits	**592**	546
Liabilities for pension and early retirement benefits	**942**	809
	1,534	1,355
Less – severance pay funds	**708**	648
	826	707

B. The Group's liabilities to their employees in respect of severance benefits is partly covered by current payments in the names of the employees to severance pay and pension funds and by purchasing insurance policies. The amounts deposited are not included in the balance sheet, since they are not under the management and control of the Group companies.

C. The Group's liabilities for employee severance benefits appearing in the balance sheet represent the balance of the liabilities not covered by the deposits and insurance policies as stated above. In respect of this portion of the liabilities, there are fundings with recognized severance pay funds, in the name of the Group companies.

D. Pursuant to a collective bargaining agreement signed in 1978 with employees of a consolidated company, employees leave on early retirement upon reaching the age of 58, provided they worked for Sdom for 25 years, or at the age of 60, provided they worked for Sdom for 20 years.

On September 16, 2001, a judgment was handed down by the District Labor Court in Be'er Sheva with respect to the claim of an employee of a subsidiary which held that the "early retirement" clause in the collective bargaining agreement between the subsidiary and its employees should be viewed as conveying to the employees a right to retire and not as imposing on them an obligation to retire. The subsidiary appealed the District Labor Court's decision to the National Labor Court. On March 18, 2004, the decision on the appeal was rendered. The National Labor Court accepted the subsidiary's appeal in part and reversed the District Labor Court's determination pursuant to which the subsidiary's employees have a right to take early retirement in place of an obligation to retire. The decision ruled that the existing early retirement arrangement is null and void, however it held that this ruling will become effective 6 months after the date the decision was rendered in order to allow the parties to determine during such period a new and detailed arrangement covering early retirement of the Sdom employees on a basis which conforms with the requirements of law and the existing case law.

Note 17 - Liabilities for Employee Severance Benefits, Net (cont'd)

E. The provisions in the accounting records for pensions payment, including with respect to early retirement, are based on their present value of the amounts payable as computed by actuaries based on, among other things, mortality tables used in Israel (by the National Insurance Institute) and in Germany. The discount rates used to calculate the present value were as follows: in respect of companies in Israel – mainly 3.5% linked to the CPI and the rest 4.8% linked to the CPI, in respect of foreign companies – mainly 6% and the rest 4%. The liability was calculated by the companies on the basis of the assumption that the salary of the employees will increase as follows: companies in Israel – mostly by 2% per year (linked to the CPI) and in foreign companies – by 2% to 2.5% per year and after retirement the salary will be linked to the CPI.

F. In certain subsidiaries operating in countries in which there is no obligation to make severance payments, provisions for such possible payments in the future were not made, excluding cases of a discontinuation of operations in part of the plant and the consequent dismissal of employees.

G. Subsequent to the balance sheet date, in January 2004, the Knesset passed the Retirement Age Law, 2004, according to which the articles of association for pension funds were changed, such that the retirement age will be gradually raised for men from 65 to 67 and for women from 60 to 62.

Pursuant to the Law, as stated, with respect to the financial years from 2004 through 2015, there will be a total allocation of NIS 3 billion for the entire economy (approximately NIS 250 million in every financial year – such amount may be transferred between financial years), for purposes of helping to solve financial difficulties resulting from the increase in the retirement age under the Law.

The criteria for use of the assistance budget, as stated, will be provided by a public committee, which will give unequivocal preference to assistance in the solution of financial difficulties in the business sector as opposed to in the public sector.

The Group has employees who took early retirement as well as other employees who will be entitled to take early retirement in the future (see subsection D above). The said Law, taking into account the assistance embodied therein, may have an impact on the Group's employee related obligations. As at the date of the financial statements, the ICL Group is unable to estimate the effect of the change in the articles of association of the pension funds on the Group's liability for employee related obligations and the amounts of assistance which will be received, if any, and accordingly, the provision that will be required in the financial statements for 2004.

Note 17 - Liabilities for Employee Severance Benefits, Net (cont'd)

H. CPL's Pension Plan

a) CPL has a pension liability to its employees in respect of which it established a defined benefit plan into which amounts are paid by the employees and the employer. The main characteristics of the pension liability and pension fund are as follows:

(1) The pension plan is subject to the UK trust laws, and the assets of the pension fund are handled by the trustees, who are not answerable to CPL. CPL is entitled to appoint some of the pension fund trustees and may also replace those trustees that it has appointed. However, the trustees are obligated to act according to the interests of the fund beneficiaries, even in the event of a conflict of interests, should one arise, between CPL and the pension fund.

(2) CPL is responsible for making payments to the pension fund and, in the event of the pension fund having insufficient assets, CPL is required to make up the shortage in accordance with local rules, see also (5), below. CPL is not permitted to withdraw monies from the fund, even if the fund's balance exceeds the pension liability, although it may, in such circumstances, reduce its current payments to the fund. In addition, CPL may not dissolve the pension fund.

(3) Payments to the pension fund are deductible for tax purposes.

(4) The pension fund assets are invested in marketable securities, as is the custom among similar pension funds in the UK.

(5) Under UK law, CPL is required to maintain a minimum amount of assets in the pension fund standing against its pension liability to its employees.

b) The net pension expenses recorded on the statement of income for the year ended December 31, 2003 in respect of CPL's pension plan, are composed as follows:

	Year ended December 31, 2003	**For the period of eight months ended December 31, 2002**
	US$ millions	**US$ millions**
Current service costs	**26**	17
Current interest costs	**48**	30
Expected return on the pension fund assets	**(48)**	(37)
Actuarial losses, net, recognized in the period	**8**	-
Pension expenses, net, for the period	**34**	10

Note 17 - Liabilities for Employee Severance Benefits, Net (cont'd)

H. CPL's Pension Plan (cont'd)

c) The movement in the pension liability payments and the pension fund assets included in the financial statements, from the date of CPL's acquisition to the date of the financial statements, is as follows:

	Year ended December 31, 2003	For the period of eight months ended December 31, 2002
	US$ millions	US$ millions
Actuarial liability as at the beginning of the period	(753)	(721)
Current service costs for the period	(25)	(17)
Current interest costs for the period	(48)	(30)
Actuarial gains (losses) for the period in respect of the pension liability	(46)	45
Translation differences for the period	(116)	(76)
Actuarial liability for pension payments as at December 31, 2003 (1)	(988)	(799)
Market value of pension fund assets as at acquisition date	587	720
Expected return on pension fund assets for the period	48	37
Employer deposits in the pension fund during the period	28	18
Actuarial gains (losses) for the period in respect of pension fund assets	62	(228)
Translation differences for the period	89	76
Fair value of pension fund assets as at December 31, 2003 (2)	814	623
Actuarial pension liability, net of market value of pension fund assets as at December 31, 2003 [(1)–(2)]	(174)	(176)
Deferred actuarial losses as at December 31, 2003	176	183
Pension fund assets, net, as included in the financial statements as at December 31, 2003	2	7

Note 17 - Liabilities for Employee Severance Benefits, Net (cont'd)

G. CPL’s Pension Plan (cont'd)

The actuarial valuation of the pension liability is made once a year, close to the end of the year.

d) The following assumptions were applied in the measurement of the pension plan components:

(1) Annual discount rate of 5.4%, 5.5% and 5.7% as at December 31, 2003, 2002 and the acquisition date, respectively – based on the nominal yield rate of corporate debentures, which are traded in the UK and which are rated AA;

(2) Annual expected return on pension fund assets of 7% as at December 31, 2003, 2002 and the acquisition date, respectively – reflects the anticipated, long-term expected return on the pension fund assets; and

(3) Annual nominal increase in the salaries of CPL employees of 3.7%, 3.85% and 4.2% as at December 31, 2003, 2002 and the acquisition date, respectively – based on CPL’s experience (that takes into account annual inflation at an assumed rate of 2.77%, 2.35% and 2.7% as at December 31, 2003, 2002 and the acquisition date, respectively).

Note 18 - Contingent Liabilities, Commitments and Concessions

A. Guarantees

	Consolidated		Corporation	
	2003	**2002**	**2003**	**2002**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**
On behalf of –				
Subsidiaries	**-**	-	**175**	192
Proportionately consolidated companies (2)	**-**	-	**-**	-
Others (1)	**83**	151	**15**	16
Total (*)	**83**	151	**190**	208
(*) Including –				
Amounts in foreign currency or linked thereto	**83**	151	**190**	208

Note 18 - Contingent Liabilities, Commitments and Concessions (cont'd)

A. Guarantees (cont'd)

(1) The amount includes approximately NIS 12 million which the Corporation guaranteed to purchasers of residential units purchased from AM-HAL Ltd. According to the agreement for the sale of H.L. Properties Ltd. (a former investee company), the parent company of AM-HAL Ltd., in 1999, the purchaser undertook to do its best to release the Corporation from the above-mentioned guarantees. As long as the purchaser has not released the Corporation from the said guarantees the purchaser committed to be responsible for any claim or demand directed to the Corporation in respect of these guarantees beginning from December 31, 1999.

(2) In addition to the guarantees stated above the Corporation, together with the other limited partner in Elram, granted performance guarantees in respect of the construction of dwellings which the partnership is committed to build on certain lands and to remit, to the owners of the lands, a certain share of the sales' proceeds, or transfer to them a part of the units constructed.

(3) Guarantees have been issued in favor of the Customs Authorities and the Ports Authority – some unlimited in amount and others up to an amount of NIS 5 million.

B. Claims

1. In subsidiaries

Israel Chemicals Ltd. (ICL)

a) Since 1994, subsidiaries of ICL (hereinafter – “the Bromine Group”) have been impleaded (i.e., received third-party and fourth-party notifications) into several cases brought against American companies in courts in the United States (including two class actions) by approximately 30,000 former employees on banana plantations mainly in Central America, the Caribbean Islands, Africa and the Philippines (hereinafter – the "Plaintiffs"). The Plaintiffs allege that they sustained bodily injury as a result of their exposure to a certain chemical, which was produced by a number of companies, including large chemical companies, and was supplied to companies engaged in banana cultivation (collectively – the "Defendants") and which was allegedly in use over a period of approximately thirty years (1960 to 1990).

A major part of the above legal proceedings has been transferred by the U.S. courts to the courts in the Plaintiffs’ countries of residence. In most of those cases, the Bromine Group Companies have been directly named as defendants. At this stage, it is not possible to determine the likelihood of all or part of the said litigation being remanded to the United States despite having been so transferred.

Note 18 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

1. In subsidiaries (cont'd)

Israel Chemicals Ltd. (ICL) (cont'd)

a) (cont'd)

In the framework of the above-mentioned hearings, which are being held in various levels of the U.S. courts, the U.S. Supreme Court recently ruled that the Dead Sea Bromine Company, since it is not a first level subsidiary of the State of Israel, is not entitled to federal jurisdiction. At this stage, the Bromine Group and its legal counsel are unable to estimate the impact of this decision on the continuation of the proceedings or on other proceedings deriving from possible claims with respect to this matter.

During the period in which these proceedings have been carried on, most of the Plaintiffs have reached compromise agreements with most of the Defendants. The Bromine Group are included in the waiver agreements signed by the Plaintiffs. The effect of the above-mentioned agreements on the claims for indemnification and participation that were filed against the Bromine Group cannot be estimated at this stage. It should be noted, that claims have been filed by 5,000 plaintiffs (possibly even more), who are not parties to the said compromise agreements.

The Bromine Group Companies claim absence of liability and lack of jurisdiction with respect to them in connection with the above-mentioned proceedings.

The Bromine Group estimates that at the relevant date the Group had certain insurance coverage in respect of the events that are the subject of the claims. However, there is a dispute, with at least some of the insurers, as to the amount and scope of the coverage. Should the plaintiffs succeed in their claims against any or all of the defendants, and should these parties succeed in their claims against the Bromine Group, the amount the Bromine Group may be required to pay could exceed the amount of the coverage which will be recognized by the insurers.

The Bromine Group estimate that the quantities of chemicals supplied by them to the relevant countries and in the relevant period was, if at all, small as compared to the quantity supplied by the other producers.

At this stage, the Bromine Group and its legal advisors are unable to estimate if and to what extent the Bromine Group is exposed to liability in these proceedings, this being due to the uncertainty involved in the aforementioned legal proceedings. Therefore, no provision has been made in the financial statements in respect of the possible outcome of these claims.

Note 18 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

1. In subsidiaries (cont'd)

Israel Chemicals Ltd. (ICL) (cont'd)

a) (cont'd)

In the year of account, Bromine Group was informed of three claims filed in Nicaragua on behalf of 350 claimants, apparently for alleged damages from use of the aforementioned chemical product. The defendants also include a subsidiary of the ICL. Since process has not yet been served to the subsidiary, it is not required to respond. The statements of claim have also not been submitted to the subsidiary and, accordingly, the exact nature of the claims is not known.

b) In September 2003, a claim for compensation for personal injuries, in the amount of US$ 4.8 million, was filed against a number of entities, including ICL subsidiaries. The claim was filed by the heirs of 5 employees of the Ashdod port who died from various cancer-related illnesses, which they claim were caused as a result of their exposure to radiation from, they allege, the phosphates and potash at the port. The proceedings are in the very initial stages and at the date of the financial statements a statement of defense had not yet been submitted. The managements of the subsidiaries, based on their legal advisors, believe that there is no basis for the claim, and in any event there is no reason to record a provision in the books in respect thereof.

c) Contrack Line Ltd. (hereinafter – "Contrack") has filed a claim against Dead Sea Works Ltd. (hereinafter – "DSW") and others, in the Tel-Aviv District Court for infringement of a patent registered by Contrack in respect of a dredge for crushing salt mushrooms in the Dead Sea and in respect of breach of other alleged rights that Contrack claims with respect to the dredge. The District Court ruled that DSW infringed the patent. An appeal was submitted to the Supreme Court with respect to this ruling. Mediation proceedings between the parties were unsuccessful and the case is awaiting the Supreme Court's decision.

Concurrent with the appeal and based on the said ruling, Contrack filed a financial claim against DSW in the Tel-Aviv District Court, in respect of damages/losses caused to it, in the amount of approximately $51 million. Contrack requested from the court to be exempted from fees in respect of its claim. The Court approved the payment of a minimum fee of NIS 10,000 by Contrack in respect of a claim amount of $20 million. This ruling was appealed by both sides. The ruling on these appeals has been deferred until a ruling is issued regarding the appeals pending before the Supreme Court.

DSW has included a provision which it believes, based on the opinion of its legal counsel and taking into account developments in the aforementioned proceedings, will be sufficient to cover any exposure arising from such proceedings.

Note 18 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

1. In subsidiaries (cont'd)

Israel Chemicals Ltd. (ICL) (cont'd)

d) The local authorities in Germany are demanding that a German subsidiary of the Rotem Group (hereinafter – "the German Company"), along with the company to which it leases land (hereinafter – "the Lessee"), remove waste consisting of metal oxides, that was placed on the land by the German Company, and – later by the Lessee – claiming that the waste could cause groundwater contamination.

In November 2000, the German Company and the Lessee reached an agreement with the local authorities as to the waste mentioned above. The German Company included a provision of approximately $3.5 million in its accounts in respect of this agreement, based on its estimated share in the anticipated expenses.

e) The Bromine Group manufactures, stores and sells dangerous chemical products. Accordingly, it is exposed to risks resulting from environmental damage. The Bromine Group invests substantial amounts in order to meet the environmental directives and regulations. The financial statements include a provision amounting to approximately $11.4 million, which, in the opinion of the management of the Bromine Group, on the basis of information available to it as at the signing date of the financial statements, is adequate to cover possible liabilities in respect of environmental damage in which the Bromine Group is involved.

f) In January 1998, a report was submitted to the Ministry of the Environment and to the Ramat Hovav Local Industrial Council, upon their request, by investigators from academic institutions. The report contains data relating to underground pollution in the Ramat Hovav region, where a plant of a subsidiary in the Bromine Group is located, along with other chemical plants. The report includes recommendations regarding steps to be taken to prevent infiltration of pollutants into the ground in the Ramat Hovav area and to prevent the spreading thereof.

During 1998, the investigators who issued the above report, began a four-year jointly funded research project (of which the above subsidiary's share is $670 thousand) for the purpose of advancing the implementation of the recommendations of the above report.

In the current year, the research was concluded and its results were transferred to the subsidiary. In the estimation of the subsidiary's Management, no material consequences are expected from application of this report.

Note 18 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont’d)

1. In subsidiaries (cont’d)

Israel Chemicals Ltd. (ICL) (cont’d)

g) In previous years, soil contamination was found on a certain part of the land leased in the Netherlands by a subsidiary in the Rotem Group (hereinafter – “the Dutch Company”). Management of the Dutch Company is of the opinion, based on the policy currently in practice with respect to enforcement of environmental protection laws, and taking into account the fact that the authorities approved construction of a warehouse on the contaminated land, that the likelihood that the ecological authorities of the Dutch Government will require that the contaminated land be cleaned up is low. Upon granting the permit for construction of the warehouse, the authorities related to the contamination as being severe, but decided that, at that stage, there was no need to clean it up. Consequently, the management of the Dutch Company does not intend to initiate the cleaning up of the contamination, as it may be very costly. However, the question may become relevant only if and when the plant will be closed and the land will revert to the Port Authority. At present, the Dutch Company incurs insignificant costs with respect to monitoring of the contamination.

In the opinion of the management of the Dutch Company, the previous owner of the ground is responsible for the contamination, since it was not brought to the attention of the Dutch Company prior to the acquisition. The question of responsibility for any damages to third parties is being litigated and has not yet been resolved.

h) On May 29, 2001, a class action was filed against Fertilizers and Chemicals Ltd. (hereinafter – "Fertilizers") and 3 other entities (hereinafter – "the Defendants"), under Section 10 of the Law for the Abatement of Environmental Nuisances (Civil Claims), 1992. According to the claim, the Defendants have been polluting the Kishon Stream. The claimants request the Court to order to cease the pollution of the Kishon Stream and to restore it to its state prior to the discharge of the sewage.

On June 13, 2001, May 22, 2002, December 31, 2002, March 20, 2003 and December 8, 2003, additional monetary claims were filed against Fertilizers and many other entities, in the amount of approximately $33 million, alleging that the defendants discharged sewage into the Kishon Stream which, according to the plaintiffs, was the cause of the cancer which they developed. These claims join other claims for personal injury and economic damage allegedly caused to the plaintiffs as a result of the pollution of the Kishon Stream which, according to the plaintiffs, was caused by Fertilizers and others.

Note 18 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

1. In subsidiaries (cont'd)

Israel Chemicals Ltd. (ICL) (cont'd)

h) (cont'd)

On August 24, 2003, a request to join 62 additional plaintiffs to one of the claims for personal injuries was filed. On January 15, 2004, an additional claim was filed against Fertilizers and other entities involving property damage. The aggregate amount of the property damage claims is $6.9 million. In the estimation of Fertilizers' management, which is based on the opinion of its legal counsel, the exposure relating to these claims cannot be estimated at this stage. Therefore, no provision was included in ICL's financial statements in respect thereof.

i) In February 2002, the Israel Union for Environmental Defense (hereinafter – "the IUED") submitted a Water Appeal to the Water Tribunal in Haifa, wherein it requests that the Water Commissioner be required to issue orders against two subsidiaries of the Company, obligating them, inter alia, to redress and/or to reinstate the salinity of the "Havurat Yehuda" aquifer (in which, inter alia, the "Effa 13" bore is located) to its original levels and/or take all necessary actions in order to prevent the recurrence of pollution, as stated. The appeal further requests that the orders obligate the said subsidiaries to immediately stop the permeation of industrial effluents into the sub-terrain and to pump the polluted water from the "Effa 13" as well as other bores – this in order to minimize the spreading of the pollution and to control the rising salinity levels, while utilizing the polluted water instead of unpolluted water extracted from other sources.

The managements of those subsidiaries believe that they have good arguments as to why such orders must not be issued and that the pollution was not caused by the subsidiaries. In addition, the subsidiaries' managements claim that the Water Tribunal is not authorized to issue a ruling in this case and that IUED has no standing in this proceeding. Furthermore, another subsidiary of the Company has expressed its willingness to purchase the water from the "Effa 13" bore. The Water Commissioner has notified the Court that he does not believe that the remedies are in order, since if there was any contamination, it was terminated, and since practical solutions for the use of the aquifer water are being examined, under which a solution for the alleged contamination would be reached in any event. The hearing of the substantive arguments of the appeal has been concluded and the case is now in the summations stage.

As the remedies requested in relation to the measures that the subsidiaries will be obliged to take with regard to the pollution, are very general and cannot be quantified, it is impractical to estimate, at this stage, the potential cost of the actions, if any, that the subsidiaries may be required to take.

Note 18 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

1. In subsidiaries (cont'd)

Israel Chemicals Ltd. (ICL) (cont'd)

j) In February 2004, ICL became aware that the Prosecutor of Environmental Crimes of Catalonia, Spain, initiated a criminal proceeding, in the framework of which an account was filed with the Magistrate's Court in Messarat, Spain, against a company in ICL's fertilizers sector, which operates mines in Spain, as well as against former and present managers of the said company, wherein it is alleged that managers of the company in Spain violated the local law and caused contamination of subterranean water due to permeation of salt compounds which were dumped from the mine sites during the course of many years, partly prior to the Company's acquisition of ICL Fertilizers. The Court was also requested to issue an order forbidding the continued dumping of the salt compounds. As at the date of the report, no order, as stated, was issued. ICL Fertilizers estimates, based on the opinion of its legal advisors, that the probability of such an order, as aforesaid, being issued, as this stage, is low. If an order, as stated, is issued and it is not changed during the legal process – such matter will have a material impact on the mining activities in the site.

k) A number of additional claims are pending against ICL and various of its subsidiaries in a total amount of up to $45 million, regarding which provisions have been included in the books of ICL and the subsidiaries in the amount of $1 million. In addition, in respect of $44 million of the above-mentioned claims, there is insurance coverage. In the opinion of the companies' managements, based on the opinions of their legal counsel, these amounts are sufficient to cover any liabilities that may arise.

Regarding claims in an amount up to $8 million as at December 31, 2003, in the opinion of the managements of the companies involved, based on opinions of their legal counsel, it is not yet possible to evaluate the claims' chances, and therefore, no provision has been included in the financial statements in respect thereof.

Note 18 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

3. In affiliated companies

a. Oil Refineries Ltd. (hereinafter – ORL)

1) A former navy man sued Haifa Chemicals Ltd., the Haifa Area Municipalities Organization (Sewage) and the Haifa Municipality for personal injury allegedly sustained by him during his military service, in the Kishon Stream. The amount of the claim exceeds NIS 1 million as of the date of filing (July 2000). Haifa Chemicals Ltd. filed third party notices against 22 parties, including ORL and its investees, claiming that should judgment be entered against Haifa Chemicals, Ltd., it will be entitled to indemnification and/or reimbursement from the 22 parties. Due to the early stage of the proceedings, it is not possible to predict the claim's chances of success. 61 additional plaintiffs have requested to join the above-mentioned claim. The court has not yet ruled on their requests.

2) ORL and its investees are among the 10 defendants being sued by 44 plaintiffs for damages as a result of injuries allegedly sustained by them as a result of their activities in the Kishon fishing port. According to the plaintiffs, who are fishermen in the Kishon port, the defendants are responsible for the condition of the river, which caused the plaintiffs to contract cancer. The amount of the suit is not absolute since it is a suit for bodily injury, however the statement of claim states an amount of NIS 111 million. Due to the early stage of the proceedings, it is not possible to predict the claim's chances of success.

3) ORL and its subsidiaries received a third-party notification from parties being sued by the Haifa Rowing Club in a class action suit under the Law for the Abatement of Environmental Nuisances (Civil Claims), 1992. The plaintiffs petitioned for issuance of a restraining order that would put an immediate stop to the discharge of wastes that they claim pollute the Stream and prevent any discharge of such wastes in the future. They also requested a mandatory injunction to restore the Stream to its prior condition. A defense brief has not yet been filed. Due to the early stage of the case, it is not yet possible to estimate its chances of success or to estimate the financial ramifications thereof.

Note 18 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

3. In affiliated companies

a. Oil Refineries Ltd. (hereinafter – ORL)

4) Various claims have been filed against ORL, its investee companies and other companies, the cost of which could reach NIS 134 million, as well as claims for unstated amounts. With respect to some of the claims, insurance coverage exists. In the opinion of ORL and its legal advisors, the chances are good that a number of the claims will be rejected. In connection with other claims, a provision has been recorded on ORL's books based on an estimate of amounts of the anticipated payments which will be required to discharge them. Regarding the balance of the claims, due to the early stages of the proceedings, it is not possible at this point to predict their outcomes.

b. Zim Israel Navigation Company Limited (hereinafter – ZIM)

ZIM and its subsidiaries are parties to various arbitration proceedings and lawsuits, in the total amount of NIS 7 million. ZIM has made a provision of NIS 2 million which, in the opinion of its legal advisors, it may be required to pay in connection with the above actions.

c. Tower Semiconductors Ltd (hereinafter – Tower)

In July 2003, certain shareholders of Tower filed a claim in a U.S. court against Tower, certain of its directors, certain Wafer partners and main investors, including the Israel Corporation and I.C. Tech. The plaintiffs, which have requested, among other things, that their claim be certified as a class action, have raised contentions under the U.S. Securities Law from 1934, in connection with inaccurate reports and omission of information by the defendants in material sent to the shareholders of Tower in April 2002 relating to approval of the amendment of Tower's investment agreements with its Wafer partners and main investors in capital.

Tower and the Corporation believe that the claim has no basis and they intend to vigorously oppose it.

The Corporation adopts the evaluations of ICL, ZIM and ORL, as applicable, in connection with the claims described above.

Note 18 - Contingent Liabilities, Commitments and Concessions (cont'd)

C. Commitments

1. The Corporation

a. In accordance with resolutions of the General Meetings of the shareholders of the Corporation and of its subsidiaries, their Articles of Association were amended so as to permit them to indemnify and to insure their officers, subject to the provisions of the Companies Ordinance and other restrictions.

b. In March 2001, a commitment for indemnification and the exemption of senior officers of the Corporation was approved (in addition to the insurance of senior officers), which does not apply to cases detailed in paragraph 263 of the Companies Law. The exemption is from the responsibility of senior offices for damages caused or to be caused by them as a result of a breach of the duty of care to the Corporation. The amount of the indemnification to be paid by the Corporation in excess of the amounts to be received from the insurance company, should such amounts be received, for each senior officer in the aggregate, in respect of one or more of the events detailed therein, was limited to 25% of the Corporation's share capital according to its latest financial statements published immediately prior to the beginning of the legal proceedings in respect of which the indemnification is to be paid.

2. Israel Chemicals Ltd.

a. As at December 31, 2003, ICL and its subsidiaries have commitments in the amount of NIS 324 million to local and foreign suppliers for the purchase of raw materials in the regular course of business, and for various periods ending up to ten years after the balance sheet date.

b. Certain subsidiaries of ICL have commitments toward suppliers to purchase fixed assets. As at December 31, 2003, there are commitments to invest NIS 114 million in fixed assets.

c. A UK subsidiary of ICL has entered into several contracts for the lease of real estate assets that are used in the mining of potash. The lease fees are generally determined based on the quantities of potash mined in each location. The two principal leases end in 2035 and 2017. The latter may be terminated in 2007 or 2012, subject to advance notice of six months. The other contracts are mostly for periods of 35 years.

d. In September 2003, a long-term (20 year) supply agreement was signed with the Great Lakes Chemical Corporation, commencing from January 2004, for the supply of bromine and its related compounds.

Note 18 - Contingent Liabilities, Commitments and Concessions (cont'd)

C. Commitments (cont'd)

2. Israel Chemicals Ltd.

e. Certain subsidiaries of ICL have commitments to pay royalties to the Government of Israel. The royalties are at the rate of 2% to 4% of the proceeds received from the sale of products regarding which the Government of Israel participated in the related research and development by way of grants. These commitments are not to exceed the rate of 100% – 150% of the total dollar amount of the grants received by the subsidiaries (in respect of products manufactured in Israel). On the date of the receipt of the participation from the Government of Israel, the success of the development of the projects was not yet assured. In the event that a project which was partially financed by Government participation which involves the payment of royalties, is not successfully completed, the ICL Group is not required to pay any royalties to the Government. As at December 31, 2003, the maximum amount of the royalties which the ICL Group may ultimately have to pay is NIS 57 million.

f. Regarding the sale of trade receivables in the framework of a securitization transaction – see Note 4.

D. Concessions

1. Subsidiaries

a. According to the Dead Sea Concession Law, 1961 (hereinafter – "the Concession Law"), Dead Sea Works Ltd. (hereinafter – "DSW") was granted a concession to exploit the resources of the Dead Sea and to lease the land necessary for its plants for a period ending March 31, 2030. At the conclusion of the planned period of the concession, DSW has the right of first refusal for any new concession which may be offered by the Government of Israel to exploit the resources of the Dead Sea.

In return, DSW pays royalties to the Government of Israel, calculated at the rate of 5% of the value, at the gate of the plant, of the products produced less certain expenses (including expenses in respect of products of the Bromine Company), as well as lease fees. Pursuant to the concession, if production and sales of the concession's product (chloride potash) exceed 1 million tons in a certain year, the Government can demand a reconsideration of the amount of royalties payable in respect of the excess quantity. The production of DSW production is in excess of this volume.

Note 18 - Contingent Liabilities, Commitments and Concessions (cont'd)

D. Concessions

1. Subsidiaries

(a) (cont'd)

In accordance with a letter from the Government, dated January 11, 1995, if Section 17 of the Letter of Concession is not activated and its implementation is not demanded (regarding the Government's obligation to pave highways, to lay railroad tracks and to install port installations, in order to enable the transport of the concession's product and its delivery by sea), the Government will not demand a reconsideration of the amount of royalties payable in respect of the abovementioned excess volume, in the period preceding the date of the abovementioned letter and in the subsequent period until the end of the concession period which is the subject of the Letter of Concession, as amended or as it will be amended.

However, starting from 2010, the Government can demand a reconsideration of the amount of royalties, in respect of the amount in excess of 3 million tons of chloride potash produced in any year, from the year mentioned and subsequently, but that will not entitle the company to any right in regard to Section 17 of the Letter of Concession. In the decision of the Ministerial Committee for Privatization, dated January 27, 1992, it was decided to revoke the above-mentioned Section 17.

The total amount of royalties paid to the Government in 2001, 2002 and 2003 amounted to 20 million, $18 million and $18 million, respectively.

b. In return for an area sub-leased from DSW, Dead Sea Magnesium Ltd. is obliged to pay royalties to the Government of Israel on the basis of raw material (carnallite) used in the production of metallic magnesium. During 2006, the Government can propose a reconsideration of the amount of the abovementioned royalties and their method of calculation, starting from 2007. In 2003, Dead Sea Magnesium Ltd. paid royalties in the amount of $215 thousand each year to the Government of Israel (2002 – $257 thousand).

c. A subsidiary of ICL, Rotem Amfert Negev Ltd. (hereinafter – "Rotem"), operates under mining concessions and permits granted by the Minister of National Infrastructures and the Israel Lands Administration (hereinafter – "Administration"), which expire in 2005. Rotem received new mining concessions for the existing fields, with minor changes, at the Zafir site (Oron – Zin), and the Rotem Plain, for the period up to 2021. The validity of the new concessions is subject to receiving a permit from the Administration for the same period – which is presently being attended to. In addition, Rotem received a new mining concession, for the mining of natural phosphate rock, until the end of the year 2013, with respect to the Effa field. This concession as well, is conditioned on obtaining a permit for the same period from the Administration – which is also being attended to. In light of the progress with respect to the receipt of authorization from the Administration, the Ministry of Infrastructures approved the start of mining in the Effa field by Rotem.

Note 18 - Contingent Liabilities, Commitments and Concessions (cont'd)

D. Concessions (cont'd)

1. Subsidiaries (cont'd)

c. (cont'd)

The current concession grants the company the right to mine ores of phosphate rock, phosphate lime and minerals combined with phosphate layers and to exploit them for production and marketing. Pursuant to both the law and the concessions, Rotem is required to pay royalties to the State. Regarding the amount of royalties, there is a disagreement with respect to the rate which is not material.

During 2001, Rotem was requested to reassess the mining royalties. In 2002, the Ministry of Infrastructures appointed an assessor to examine the method for calculating the level of royalties. This examination ended in April 2003. In light of the examiner's findings Rotem and the Ministry of Infrastructures agreed to meet and discuss the issues under dispute.

In 2001, 2002 and 2003, Rotem paid royalties of $259 thousand, $284 thousand, and $272 thousand, respectively, to the State of Israel.

2. Affiliate – Oil Refineries Ltd. (ORL)

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 ended in October 2003.

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 – or if it is split up into two separate refineries, each of the separate refineries – was 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.

Note 18 - Contingent Liabilities, Commitments and Concessions (cont'd)

D. Concessions (cont'd)

2. Affiliate – Oil Refineries Ltd. (ORL) (cont'd)

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 of 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 these 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.

The Government and ORL recorded caveats on the real estate which is the subject of the arrangement.

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).

The "annual earnings before taxes" will be defined and measured based on annual, audited consolidated financial statements, and will include ORL's share in earnings or losses of subsidiary and affiliated companies having separate activities as well as capital gains and losses, however will not include gains and losses from activities through companies operating overseas or sale of the holdings in companies operating overseas.

Note 18 - Contingent Liabilities, Commitments and Concessions (cont'd)

D. Concessions (cont'd)

2. Affiliate – Oil Refineries Ltd. (ORL) (cont'd)

In the year of account, ORL began paying deposits on account of the license fees under the arrangement. For 2003, ORL recorded a provision of NIS 7 million in its financial statements for the period from October 18, 2003 to December 31, 2003. The Accountant General in the Ministry of Finance notified ORL that the amount it paid was deposited in a separate account, so long as the conditions precedent stipulated in the arrangement were, in his opinion, not fulfilled. ORL responded to the Accountant General that the agreement was signed in the name of the Government after all the required approvals had been received by the parties authorized on behalf of the Government to sign it, and after it was signed, approvals of the Board of Directors of ORL and the Board of Directors of the Israeli Corporation were also received, and that upon the receipt thereof the agreement entered into effect. Therefore, the amount paid to the Government by ORL was properly paid pursuant to a valid agreement.

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).

Pursuant to the agreement, 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 2002, the Manager of the Ministry of the Interior appointed an investigation committee for the boundaries of the Municipality of Haifa, Nesher and Kiryat Ata, Zvulun and the area of the oil refineries. During the period of the report, the Committee published its recommendations, pursuant to which the aforesaid area will be annexed to the Municipality of Haifa; the area will be administered by means of a joint governing body of the four local authorities bordering on the area, representatives of the factories operating therein, representatives of the public and representatives of Government ministries. The Committee also recommends that the governing body should handle all matters involved with running the area as an industrial area, similar to the definitions of a local industrial council in the Local Council Ordinance. The Committee further recommended that determination of the initial Municipal Tax levy shall be with the approval of the Minister of the Interior and it shall be imposed gradually (a discount shall be given which will be reduced from year to year over a 3–5 year period). ORL requested to present its position to the Minister of the Interior, which supports the establishment of a local industrial council in the area, prior to the reaching of a decision. The Minister of the Interior rejected ORL's request for a hearing and a decision has not yet been made regarding allocation of the monopoly. If lands belonging to ORL are included within the boundaries of any local authority, ORL would be expected to be subject to Municipal Tax payments for the Haifa refinery as well. In the year of account, ORL prepared and submitted a site plan for the Haifa refinery site.

Note 18 - Contingent Liabilities, Commitments and Concessions (cont'd)

D. Concessions (cont'd)

2. Affiliate – Oil Refineries Ltd. (ORL) (cont'd)

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 that it is aware that the Government and the Israel Corporation agree to act regarding the matter of the 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.

During the year of account, a petition was filed with the Supreme Court sitting as the High Court of Justice by the Israeli Society for Proper Government (hereinafter – "the Petitioner"), for the issuance of conditional and interim orders, which will direct the Prime Minister, the Minister of Finance, the Minister of National Infrastructures, the Government Companies Authority, ORL, the Israel Corporation and others, to provide reasons why they should not be prevented from acting in accordance with the arrangement and/or why they do not act to cancel the arrangement. The Petitioner's main reasons are that the arrangement negatively impacts the principle of equality and equitable allocation, and it circumvents the tender laws by granting private parties a concession to use Government assets in a process having – based on the Petitioner's contention – various deficiencies. The Court refused to grant the Petitioner's request for interim orders which will prevent realization of the arrangement up to the time of the decision on the petition.

The Israel Corporation submitted its response to the petition, in the framework of which it expressed its position that there is no basis for the petition. ORL, in its response, objected to the petition and its reasoning and supported implementation of the arrangement.

The Petitioner once again submitted a request for interim orders which would prevent the Government from: taking steps to obtain an exemption from a tender for the arrangement, acquire or sell rights and/or shares of the Israel Corporation in ORL and to prepare a new agreement or revisions to the arrangement.

Subsequent to the balance sheet date, the Supreme Court, at the invitation of all the parties to the proceeding, including the Corporation, decided, among other things, that "the respondents are permitted to continue negotiations among themselves to change the conditions of the agreement which is being attacked by the petition and even to sign a new agreement, provided that up to the time the matter is brought before the Court for the second time no irreversible actions shall be taken and that the present situation shall continue".

Note 18 - Contingent Liabilities, Commitments and Concessions (cont’d)

D. Concessions (cont’d)

2. Affiliate – Oil Refineries Ltd. (ORL) (cont’d)

On September 15, 2003, the Government decided to set up an inter-office team which will examine all of the issues affecting the ORL at this time, directing attention to the letters of the Attorney General, dated July 7, 2003 and August 13, 2003. In the decision, it was stated, among other things, that "at first, the team will examine the agreement and the alternatives thereto, including, postponement of the date of the option held by the Israel Corporation, the agreement’s conditions, including the license fees determined therein, and the valuations performed by the Government and the Israel Corporation as a result of the agreement, and shall formulate its position. Taking into account its conclusions, the team is permitted to conduct negotiations with the Israel Corporation . . .". For detail of the Government's full decision, see below.

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.

Note 18 - Contingent Liabilities, Commitments and Concessions (cont'd)

D. Concessions (cont'd)

2. Affiliate – Oil Refineries Ltd. (ORL) (cont'd)

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: 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:

Note 18 - Contingent Liabilities, Commitments and Concessions (cont'd)

D. Concessions (cont'd)

2. Affiliate – Oil Refineries Ltd. (ORL) (cont'd)

A. 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 refineries 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).

B. 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.

C. 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.

Note 18 - Contingent Liabilities, Commitments and Concessions (cont'd)

D. Concessions (cont'd)

2. Affiliate – Oil Refineries Ltd. (ORL) (cont'd)

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.

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.

Note 18 - Contingent Liabilities, Commitments and Concessions (cont'd)

D. Concessions (cont'd)

2. Affiliate – Oil Refineries Ltd. (ORL) (cont'd)

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 2001 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 Appendix C 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, optional acquisition by the Israel Corporation of one of the split-up two refineries. 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.

The arrangement provides that in the case of a split-up of ORL into two separate refineries, each of the split-up refineries shall pay the Government license fees based on the internal allocation and brackets, in accordance with a determination to be made in the framework of the split-up arrangements, provided that the total license fees to be received by the Government from the two refineries is not more than or less than the amount the Government would have received from ORL had the split-up not been executed.

In June 2003, the two aggregate valuations were submitted. One from an appraiser on behalf of the Israel Corporation, pursuant to which the total value of ORL is NIS 2,234 million, and the other from an appraiser on behalf of the Government, pursuant to which the total value of ORL is NIS 2,143 million.

Note 18 - Contingent Liabilities, Commitments and Concessions (cont'd)

D. Concessions (cont'd)

2. Affiliate – Oil Refineries Ltd. (ORL) (cont'd)

On August 4, 2003, the Israel Corporation notified the Government that in light of the fact that the negotiations with the Government regarding participation of the Israel Corporation in the split-up have not been completed, and due to the dates provided in the appendix to the arrangement, it has decided not to exercise the option it was granted in Appendix C to the arrangement, to participate in the split-up of ORL into two separate refineries and, therefore, the provisions of Section 4 of that Appendix shall apply, according to which the Israel Corporation shall sell to the Government or to a party which the Government shall instruct, all ORL shares owned by the Israel Corporation, within 30 days, at a price which constitutes an average between the two aggregate valuations of ORL, this being subject to certain monetary adjustments.

Nonetheless, the Israel Corporation is prepared to continue the negotiations with the Government regarding its participation in the split-up.

The Government is permitted to instruct that the execution date of the sale transaction shall be postponed for an additional period which shall not exceed two years from June 6, 2003.

The Israel Corporation clarified, in the framework of an Immediate Report, that at this point, it cannot be known whether the transaction will ultimately be consummated, taking into account, among other things, the following items:

1. The results of the judicial decision with respect to the petition filed by the Israeli Society for Proper Government (as described above in the ORL Concession section).

2. The need for approvals which according to the Government's position (with which the Israel Corporation disagrees) are required by law, including a tender exemption.

3. The results of the negotiations (if held) with the Government regarding the matter of the Israel Corporation's participation in the split-up of ORL into two separate refineries, one in the Haifa Bay and the other in Ashdod.

On September 15, 2003, the Government made the following decision: "Further to Government Decisions No. 126, dated August 22, 1999, and No. 2796, dated November 25, 2002, the decision of the Committee of Ministers for Privatization Matters MH/2, dated October 20, 2001, and the agreement signed between the Government and the Israel Corporation, dated December 2, 2002, which has not yet received all the required approvals (hereinafter – "the Agreement"), to advance the split-up of the oil refineries and the privatization thereof, in the following manner:

Note 18 - Contingent Liabilities, Commitments and Concessions (cont'd)

D. Concessions (cont'd)

2. Affiliate – Oil Refineries Ltd. (ORL) (cont'd)

1. To set up an inter-office team which will include representatives of the Ministry of Finance, Ministry of National Infrastructures, Ministry of Justice and the Supervisor of Restrictive Business Practices. The work of this team will be managed by the Ministry of Finance.

2. The team will examine all of the issues affecting the oil refineries at this time, directing attention to the letters of the Attorney General, dated July 30, 2003 and August 13, 2003. At first, the team will examine the agreement and the alternatives thereto, including, postponement of the date of the option held by the Israel Corporation, the agreement's conditions, including the license fees determined therein, and the valuations performed by the Government and the Israel Corporation as a result of the agreement, and shall formulate its position. Thereafter, and in accordance with its positions, as stated, it shall examine, among other things, the most appropriate and efficient way for executing the split-up of ORL and the privatization thereof and arranging the holdings of each of the split-up refineries in investee companies, directly and indirectly by ORL. The team is authorized to make a decision regarding the matter of postponement of the date of the option, as stated, and there is no need to include this matter in the framework of the team's recommendations, as stated in Section 5.

3. Taking into account its conclusions in Section 2, the team is permitted to conduct negotiations with the Israel Corporation with respect to, among other things, split-up of ORL and the ownership structure in ORL and its investee companies, directly or indirectly, after the split-up.

4. In addition, the team will make recommendations with respect to the target structure, including supervision of prices, the reciprocal relationships which will remain between the two oil refineries, including, principles regarding the transfer of feedstock between them and between them and the petrochemicals industry and additional areas of activity for the separate refineries or for the controlling interests therein, including the dates from commencing the activities as stated.

5. The team is to submit its recommendations within 30 days for approval by the Committee of Ministers for Privatization Matters or approval by the Committee of Ministers for Society and Economic Matters, as will be determined by the Minister of Finance, and it is permitted to submit partial recommendations regarding urgent matters within 20 days. The team's recommendations regarding Section 4 may be submitted within 60 days.

Note 18 - Contingent Liabilities, Commitments and Concessions (cont'd)

D. Concessions (cont'd)

2. Affiliate – Oil Refineries Ltd. (ORL) (cont'd)

6. Up to 30 days after submission of the team's conclusions, and taking such conclusions into account, the Manager of the Companies Authority shall submit, in coordination with the Supervisor of Budgets, the Accountant General, Ministry of National Infrastructures, Ministry of Justice and the Restrictive Business Practices Authority, a proposed decision to the Committee of Ministers for Privatization Matters regarding privatization of ORL by means of its split-up and sale of the Government's holdings after the split-up. The proposed decision is to relate to, among other things, to the extent necessary, the following matters:

A. Split-up of ORL into two sister companies: ORL Haifa Ltd. (hereinafter – "ORL–Haifa") and ORL Ashdod Ltd. (hereinafter – "ORL–Ashdod"), such that all the assets, rights, liabilities and employees involved with the refining activities in Haifa shall remain in ORL–Haifa, and all the assets, rights, liabilities and employees involved with the refining activities in Ashdod shall be transferred to ORL–Ashdod.

B. Determination of the ways for privatization and the course for sale of the Government's holdings in ORL–Haifa and ORL–Ashdod after the split-up.

Up to the publication date of the financial statements, the inter-ministerial team had not yet submitted its recommendations.

In the assessment of ORL, all that stated above regarding the arrangement, if implementation thereof is decided on 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.

The management of the Israel Corporation adopts the assessments of ORL, and believes, based on the opinion of its legal advisors, that the agreement dated December 2, 2002, is a valid agreement.

E. Liens

The Corporation

1. As security for loans from banks, in the amount of NIS 760 million, the Corporation pledged shares it holds of ICL at the rate of 20.5% of ICL's share capital.

Note 18 - Contingent Liabilities, Commitments and Concessions (cont'd)

E. Liens (cont'd)

2. Upon receipt of the bank loans, the Corporation committed to fulfill a negative pledge and to maintain certain financial ratios. Nevertheless, new assets may be pledged in favor of the source which financing their purchase. Among others, the Corporation undertook that:

   – The minimum shareholders' equity will not drop below $200 million.

   – The annual net income will not be less than $5 million.

   – The ratio of the liabilities plus 50% of the guarantees shall not exceed 50% of the assets.

   As at the date of the financial statements, the Corporation is in compliance with these financial statements ratios.

Consolidated

1. Some of the companies in the ICL Group undertook towards certain Israeli and foreign banks in respect of loans and other credit it received from them not to create pledges (a "negative pledge"). Lenders are entitled to request the advance repayment of their loans if the State of Israel no longer holds the special state shares it was issued by ICL and its subsidiaries. A negative pledge was also given to the holders of debentures issued by a subsidiary of ICL according to which ICL undertook to not create any pledges on its assets as security for a liability, for as long as the debentures are not redeemed, except for the existing charges on its assets, and without creating a parallel pledge in favor of the debenture owners. Nevertheless ICL will be entitled to pledge assets it purchases to secure the loans or credit it received for the purpose of financing their purchase.

   In respect of loans and credit received by ICL from foreign banks as stated above, ICL undertook various commitments which include, inter alia, a commitment toward the lenders to limit the guarantees and letters of indemnity it gives to third parties to a specified amount (except guarantees specified in agreements with banks). ICL also undertook to grant loans only to subsidiaries and affiliates in which it holds at least 25% of the voting rights, that will not exceed an amount specified in the agreement with the banks. In addition, ICL undertook not to grant any credit, with the exclusion of regular business credit, and to not create any pledges including the granting of rights to liens on its present and future assets and income, except for pledges that were defined in the agreement as "allowable pledges".

   ICL also undertook to hold 67%–70% of the control of its main investees (Bromine, DSW and Rotem).

Note 18 - Contingent Liabilities, Commitments and Concessions (cont’d)

E. Liens

Consolidated (cont’d)

1. (cont'd)

   In respect of the convertible debentures it issued, ICL undertook to not create liens on any of its assets in favor of a third party, as security for debentures, capital notes or other securities that can be registered for trading on the stock exchange, unless the same time identical security has been provided, pari passu, also to the holders of the debentures of that series.

2. As security for liabilities in the amount of NIS 527 million floating and fixed charges were registered on assets of the ICL Group

3. To secure fulfillment of the conditions attached to receipt of investment grants, floating charges were registered in favor of the State of Israel. If the companies do not comply with the conditions with respect to receipt of the grants, they will be required to repay the grant amounts, in whole or in part, plus interest from the date of their receipt.

4. ICL recorded a general assignment of all its trade receivables, which will be included in the securitization transaction from time to time, and any right, document or collateral security which derive from or accompany such receivables, to the benefit of the company which purchased the receivables.

5. To secure loans from banks received by subsidiaries in the Corporation's headquarters, the said subsidiaries pledged their shareholdings of ICL shares representing a 22.5% interest in ICL's share capital. The balance of the loans so secured amounts to NIS 730 million.

Note 19 – Shareholders’ Equity

A. Composition of Share Capital as at December 31, 2003 and December 31, 2002

	Authorized	Issued and paid up
	NIS thousands	NIS thousands
Ordinary shares of NIS 1 par value each	160,000	6,914

Note 19 – Shareholders' Equity (cont'd)

B. Share Issuance (cont'd)

On June 20, 2001, following the publication of a prospectus, the Corporation issued by way of rights 1,329,620 ordinary shares (Series 1) of NIS 1 par value each, for the price of NIS 200 per share, together with 265,924 options (Series 1) at no additional cost.

The amount of the consideration, net of issuance expenses, was NIS 277 million.

The options are exercisable for ordinary shares (Series 1) until June 20, 2005, such that each option is exercisable into one ordinary share (Series 1) at an exercise price of NIS 700, subject to adjustments, linked to the Consumer Price Index of April 2001.

C. The Corporation requested from the Tel-Aviv Stock Exchange (hereinafter –"the Stock Exchange") to consolidate (technically) its two classes of shares, which are traded separately on the Stock Exchange. As part of the Law for Amendment of the Income Tax Ordinance No. 132, 2002, the Israel Corporation Ltd. Law, 1969 (hereinafter –"the Israel Corporation Law") was amended, pursuant to which some of the tax benefits granted in the framework of the Israel Corporation Law were cancelled, and now there is no longer any need for the differentiation that was made in the issuance in 2001 between the different series of shares. Since the requirement for differentiation between the different series of shares derived from requirements of the Income Tax Authority, the Corporation requested from the Income Tax Authority, which approved, among other things, that there is no impediment to consolidation of the Corporation's series of stock traded on the Stock Exchange for tax purposes. In addition, the Income Tax Authority notified the Corporation that issuance of shares by the Corporation from the 2003 tax year, will not adversely affect the exemptions and tax benefits to which the Corporation was entitled in the framework of the Israel Corporation Law.

On March 20, 2003, the shares were consolidated such that each ordinary share (Series 1) became an ordinary share of NIS 1 par value of the Israel Corporation.

D. Sale of Corporation Shares by a Subsidiary

In the year of account Management and Consulting, sold 6,637 ordinary shares of NIS 1 each of the Corporation, in respect of exercise of options by the employees, for a net consideration of NIS 3 million. As at the balance sheet date, Management and Consulting, holds 19,249 ordinary shares of NIS 1 each of the Corporation.

Note 19 – Shareholders' Equity (cont'd)

E. The Corporation's Stock Option Plan

1) (a) On August 16, 1999, an Extraordinary General Meeting of the Corporation's shareholders, approved a resolution of the Corporation's Board of Directors of July 6, 1999 (hereinafter – "the determining date") regarding a plan for a private placement of 22,338 options, at no cost to the Corporation's CEO. The options can be exercised into 22,338 ordinary shares of NIS 1 par value each of the Corporation. The ordinary shares to be allotted upon the exercise of the options will have rights equal to the rights of the Corporation's existing ordinary shares of NIS 1 par value, immediately upon their allotment. Furthermore, the Board of Directors of the Corporation also resolved to allot 22,338 additional options to a trustee. The terms of these additional options will be identical with those of the options allotted to the CEO. In January 2000, the Board of Directors approved the allotment of 22,300 option warrants held by the trustee in favor of Corporation executives who are not interested parties in the Cooperation (and will not be such as a result of the exercise of the options). The options vest, subject to the terms of the plan, is in three portions, as follows:

One-third on the determining date, an additional third after the elapse of one year from the determining date and the balance after the elapse of two years from the determining date.

The options of each portion can be exercised after the elapse of two years from the date of entitlement, and they expire after the elapse of two years from the date of the beginning of the exercise period of each portion. The plan also sets the principles which will apply in the event of the termination of the service or employment of any of the offerees.

The exercise price of the first portion is NIS 329.25 for each ordinary share of NIS 1 par value each, linked to the CPI, subject to adjustments. The exercise price is determined on the basis of the average price of one ordinary share of NIS 1 par value of the Corporation on the Tel-Aviv Stock Exchange (hereinafter – "the TASE") during the four-month period preceding May 13, 1999 (the date on which the first discussion concerning the stock option plan took place), less 15%.

The theoretical economic value of an option calculated according to the Black and Scholes formula for valuing options, as provided by the regulations of the TASE, as at the determining date, is NIS 173.38. This is based on the market price of one ordinary share of NIS 1 par value, on the determining date, which was NIS 494 per share.

Note 19 – Shareholders' Equity (cont'd)

E. The Corporation's Stock Option Plan (cont'd)

1) (a) (cont'd)

The exercise price for the second and third portions is to be determined on the basis of the average market price of one ordinary share of NIS 1 par value each of the Corporation, during the four-month period preceding the date of entitlement of each portion, less 15%, but no more than NIS 329.25 linked to the CPI, subject to adjustments.

The TASE has approved the listing of the shares, which will be allotted upon the exercise of the option warrants, for trading.

(b) In January 2003, the Corporation's Board of Directors decided to change the terms of the employees' stock options plan from July 1999. Pursuant to the change, at the time of exercise of the options, the offeree will be issued shares (either shares held by the Corporation or by a company which it controls will be transferred thereto), at the value of the benefit only, and the offeree will pay the par value of the shares actually issued to him only (or will not pay any amount – in the case of a transfer of shares held by the Corporation or by a company which it controls, in place of an issuance of shares), and not the exercise price of all of the shares with respect to which he gave notice of exercise.

In addition, it was decided by the Corporation's Board of Directors to change the exercise period pursuant to the stock options plan, in such a manner that the exercise period will be 36 months instead of 24 months, as provided in the terms of the existing options plan.

During the year of account, Corporation employees exercised 11,881 options for ordinary shares of the Corporation. As at the balance sheet date, the number of options not yet exercised, was 19,866.

2) In 2002, the Corporation's Board of Directors approved a private placement of 31,155 options to two employees (hereinafter – "the offerees") at no cost. The options are exercisable for 31,155 of the Corporation's ordinary shares (Series 1) of NIS 1 par value each (hereinafter – "ordinary share").

Note 19 – Shareholders' Equity (cont'd)

E. The Corporation's Stock Option Plan (cont'd)

2) (cont'd)

Upon exercise of the options, the offerees will be entitled to an amount of shares to be determined according to the benefit component as at the date of the exercise, according to the difference between the price per share (Series 1) of the Corporation on the Tel-Aviv Stock Exchange (hereinafter – "the TASE") and the exercise price of each option. The shares that will be allotted upon exercise of the options will be registered for trading on the TASE and they will confer upon their holders the same rights as the Corporation's existing ordinary shares (Series 1) of NIS 1 par value. All the options were allotted to a trustee for the offerees, in accordance with the provisions of Section 102 of the Income Tax Ordinance. The date of record for execution of the plan is October 31, 2001 (hereinafter – "the date of record").

The entitlement to receive and exercise the options (subject to all required approvals being received) will vest in three portions as follows:

One-third on the date of the Board of Directors' approval, another third one year after the date of record and the balance two years from the date of record. The exercise period of each portion of options begins two years from the date they were vested and they expire two years after the beginning of the exercise period. Principles were also provided for the event of the employer–employee relationship between the Corporation and the employees coming to an end.

The exercise price of the first portion is NIS 272.85 for each ordinary share, linked to the CPI in respect of January 2002 (NIS 282.61 per share).

The exercise price of the second and third portions was set to be the average price of the ordinary share (Series 1) on the TASE in the three months prior to the vesting of the portion less 15%, with the addition of CPI linkage differences from the index known at the beginning of the vesting period of each portion until the actual date of payment of the exercise price, but no more than NIS 282.61 linked to the CPI.

The TASE has approved registration for trading of the shares that will be allotted in the exercise of the option warrants.

Note 20 - Cost of Sales, Services and Work Executed

A. Composition

			Consolidated
	2003	**2002**	**2001**
	NIS millions	**NIS millions**	**NIS millions**
Payroll and related expenses	**1,772**	1,538	1,371
Manufacturing, operating expenses and outside contractors	**2,322**	*2,148	1,870
Materials and merchandise	**2,452**	*2,110	2,125
Depreciation and amortization	**634**	638	685
Changes in inventory of work-in-progress and finished products	**(159)**	(2)	(11)
	7,021	6,432	6,040

* Reclassified.

Note 21 - Selling, Transport and Marketing Expenses

			Consolidated
	2003	**2002**	**2001**
	NIS millions	**NIS millions**	**NIS millions**
Transport and insurance	**1,183**	1,025	972
Payroll and related expenses	**242**	206	199
Commissions	**73**	78	89
Advertising	**27**	26	26
Depreciation and amortization	**17**	20	19
Other	**129**	127	128
	1,671	1,482	1,433
Including expenses to affiliated companies	**58**	40	64

Note 22 - General and Administrative Expenses

	Consolidated			Corporation		
	2003	**2002**	**2001**	**2003**	**2002**	**2001**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Payroll and related expenses	**304**	248	253	**3**	1	1
Bad and doubtful debts	**(1)**	12	(4)	**-**	-	-
Depreciation and amortization	**38**	37	38	**-**	-	-
General expenses	**174**	118	134	**1**	1	1
Total	**515**	415	421	**4**	2	2

Note 23 - Financing Expenses, Net

	Consolidated			Corporation		
	2003	**2002**	**2001**	**2003**	**2002**	**2001**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
In respect of:						
Long-term liabilities	**163**	327	423	**41**	65	72
Marketable securities	**(116)**	31	(38)	**-**	-	-
Long-term loans granted	**4**	(6)	(2)	**-**	(8)	(7)
Debentures and convertible debentures	**48**	11	4	**14**	14	9
Short-term financing and other expenses	**17**	(4)	47	**25**	-	(31)
	116	359	434	**80**	71	43

Note 24 - Other Expenses, Net

	Consolidated			Corporation		
	2003	**2002**	**2001**	**2003**	**2002**	**2001**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Gain (loss) from disposal of investments in investee and other companies	**52**	(19)	41	**-**	-	-
Gain (loss) from disposal of fixed assets	**(8)**	1	12	**-**	-	-
Provision for decline in value of investments and assets	**(99)**	(55)	(106)	**(3)**	(5)	(7)
Write-down of the magnesium plant	**-**	-	(922)	**-**	-	-
Provision for decline in value of investment in Tower	**-**	(178)	-	**-**	-	-
Expenses in respect of caused to fixed assets	**(35)**	-	-	**-**	-	-
Amortization of goodwill in subsidiaries	**(34)**	(35)	(35)	**-**	-	-
Reorganization expenses	**(68)**	(32)	(30)	**-**	-	-
Other expenses, net	**(14)**	(9)	(23)	**(9)**	(1)	-
Dividends from other companies	**8**	6	5	**-**	1	4
	(198)	(321)	(1,058)	**(12)**	(5)	(3)

Note 25 - Taxes on Income

A. Composition

	Consolidated			Corporation		
	2003	**2002**	**2001**	**2003**	**2002**	**2001**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Current taxes	**171**	57	59	**-**	-	-
Deferred taxes, net	**(26)**	132	(210)	**26**	(5)	-
	145	189	(151)	**26**	(5)	-

Note 25 - Taxes on Income (cont'd)

B. Theoretical Tax

The difference between the theoretical tax expense, computed on pre-tax earnings at the tax rates applicable to the Corporation and the tax expense included in the statement of earnings, is explained hereunder:

	Consolidated			Corporation		
	2003	**2002**	**2001**	**2003**	**2002**	**2001**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Statutory tax rate applicable to the Corporation	**36%**	36%	36%	**36%**	36%	36%
Tax (tax benefit) computed at the statutory tax rate	**205**	81	(278)	**126**	(109)	(101)
Increase (decrease) in tax in respect of:						
Different tax rates applicable to subsidiaries and tax benefit deriving from a tax reduction in respect of approved enterprise	**(35)**	(52)	92	**-**	-	-
Group's equity in results of investees	**-**	-	-	**(161)**	81	83
Tax losses and other tax benefits, net, which were not utilized and in respect of which deferred taxes were not created	**107**	86	109	**60**	21	16
Utilization of losses and benefits from prior years	**152**	(5)	(4)	**-**	-	-
Non-deductible expenses and exempt income (1)	**53**	118	43	**1**	2	2
Benefit – "Nachal" deduction	**(7)**	(37)	(62)	**-**	-	-
Differences between the inflationary adjustment for tax purposes, and that used for financial reporting as well as other differences, net	**(26)**	(2)	(51)	**-**	-	-
Total tax expense	145	189	(151)	26	(5)	-

(1) Including income subject to tax at special rates.

Note 25 - Taxes on Income (cont'd)

B. Theoretical Tax (cont'd)

1. The deferred taxes are included in the balance sheet as follows:

	Consolidated		Corporation	
	2003	**2002**	**2003**	**2002**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**
In current assets (a)	**105**	82	**-**	-
In long-term liabilities (b)	**957**	1,035	**38**	12

(a) In respect of current items – provisions for vacation pay and doubtful debts, etc.

(b) In respect of non-current balance sheet items – fixed assets, real estate, deferred expenses, liability in respect of employee severance benefits, loss carryforwards, etc

Note 25 - Taxes on Income (cont'd)

C. Deferred taxes

2. Movement in deferred taxes:

	Depreciable fixed assets	Other (1)	Tax loss and inflationary deduction carryforwards	Total
	NIS millions	NIS millions	NIS millions	NIS millions
Balance as at January 1, 2001	(1,619)	66	551	(1,002)
Charged in current year to tax expenses	452	(38)	(204)	210
Differences in translation reserves	(125)	14	35	(76)
Balance as at December 31, 2001	(1,292)	42	382	(868)
Charged in current year to tax expenses	(115)	95	(112)	(132)
Initially consolidated companies	-	-	55	55
Differences in translation reserves	(11)	1	2	(8)
Balance as at December 31, 2002	(1,418)	138	327	(953)
Charged in current year to tax expenses	114	69	(157)	26
Initially consolidated companies	16	-	-	16
Differences in translation reserves	86	(13)	(14)	159
Balance as at December 31, 2003	(1,202)	194	156	(852)

(1) Mainly provisions for rights of employees and doubtful debts.

3. The deferred taxes as at the balance sheet date were calculated at the tax rates anticipated to be in effect at the time they are realized.

4. The net book value of a certain depreciable fixed asset, which includes amounts that are not deductible for tax purposes, such as depreciation or cost upon realization of the asset and which are considered permanent differences (in respect of which deferred taxes are not to be created) in accordance with Opinion No. 40 of the Institute of Certified Public Accountants in Israel, is not material.

Note 25 - Taxes on Income (cont'd)

D. Provisions for taxes

1. The Group companies in Israel are taxed under the Income Tax Law (Inflationary Adjustments), 1985. In accordance therewith, the taxable income is measured on a real (inflation-adjusted) basis as measured by the increase in the CPI. The financial statements of those Israeli investees which are adjusted for inflation on the basis of the changes in the foreign currency exchange rate, differences may be created, due to the difference between the rate of increase in the CPI and the rate of increase in the dollar exchange rate, both on an annual basis and on a cumulative basis.

2. According to the Israel Corporation Ltd. Law, 1969, the Corporation is exempt from capital gains tax for a period of 30 years which ended in 1999.

3. Part of the production facilities of certain subsidiaries have been granted "approved enterprise" status under the Law for the Encouragement of Capital Investments, 1959. Income deriving from an approved enterprise is taxable at a reduced tax rate, usually for a period of seven years, beginning with the year in which it first had taxable income, so long as 12 years have not elapsed since the said enterprise commenced production or 14 years from the date of the letter of approval, whichever is earlier. In addition, accelerated depreciation rates may be claimed on the fixed assets of the approved enterprise. Such benefits are conditional upon the fulfillment of certain conditions.

4. Subsidiaries located abroad are taxed according to the laws of their countries of domicile.

5. The provision for taxes of industrial investee companies has been computed in accordance with their status as companies owning approved enterprises, which are entitled to benefits under the Law for the Encouragement of Capital Investments, 1959. The tax provisions of other industrial companies have been computed, taking into account tax benefits available under the Law for the Encouragement of Industry (Taxes), 1969.

E. Tax loss carryforwards

The tax loss and inflationary deduction carryforwards on a consolidated basis as at December 31, 2003 amounts to NIS 2,104 million, as well as capital losses for tax purposes, in the amount of NIS 474 million. The Group created deferred taxes in respect of tax loss carryforwards of NIS 548 million. The balance of loss carryforwards for which no deferred taxes have been created amounts to NIS 1,556 million.

Note 25 - Taxes on Income (cont'd)

F. Final tax assessments

1. The Corporation has received final tax assessments for all years up to and including the year ended December 31, 1992. In addition, the assessments up to and including 1999 are considered to be closed.

2. The Group companies have received final tax assessments for various periods up to and including the year ended December 31, 2001, except for several subsidiaries which have not received tax assessments since their inception.

Note 26 - Group's Equity in Earnings (Losses) of Investees, Net

	Consolidated			Corporation		
	2003	**2002**	**2001**	**2003**	**2002**	**2001**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Subsidiaries	**-**	-	-	**307**	(148)	(254)
Proportionately consolidated companies	**-**	-	-	**(2)**	(4)	(1)
Affiliated companies	**4**	(147)	(42)	**142**	(74)	23
Adjustment of provision for write-down of investment in Tower	**98**	-	-	**-**	-	-
	102	(147)	(42)	**447**	(226)	(232)

Note 27 - Earnings Per Share

A. The data used in computing the basic and diluted per share earnings are as follows:

	2003	**2002**	**2001**
Net earnings (loss) (NIS millions)	**325**	(299)	(280)
Weighted-average share capital (NIS thousands)	**6,920**	6,901	6,687

B. In computing the basic earnings per share, certain convertible securities issued by investee companies were taken into consideration in accordance with tests established by Opinion No. 55 of the ICPAI.

C. The calculation of the weighted-average share capital takes into consideration options the Corporation issued to employees and the exercise of which is anticipated. The theoretical earnings from the exercise of options are immaterial.

Note 28 - Segment Information – Consolidated

The business operations of the Corporation are carried out by Group companies operating in various business segments. Following are details according to business segments –

A. Information with respect to business segments

	Fertilizers													
	Potash	Phosphate	Eliminations	Total	Industrial products	Agricultural products*	Performance products	Metallurgy	Shipping	Energy	Technology & common.	Other activities	Eliminations	Total consolidated
	2003	2003	2003	2003	2003	2003	2003	2003	2003	2003	2003	2003	2003	2003
	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
Income and loss data:														
Other operating sales and revenues, net:														
Unaffiliated customers	2,976	1,889	-	4,865	2,053	363	2,240	263	-	-	117	317	-	10,218
Inter-segment	376	288	(124)	540	39	-	23	60	-	-	-	136	(798)	-
Total other operating sales and revenues, net	3,352	2,177	(124)	5,405	2,092	363	2,263	323	-	-	117	453	(798)	10,218
Operating income	663	13	5	681	14	92	156	(52)	-	-	(7)	23	70	977
Unallocatable expenses														(94)
Operating income	663	13	5	681	14	92	156	(52)	-	-	(7)	23	70	883
Share in results of affiliates	(1)	(1)	-	(2)	-	-	-	-	100	58	(54)	_	-	102
Amortization of original differences	(17)	(5)	-	(22)	(12)	-	-	-	-	-	-	-	-	(34)
Segment earnings (loss)	645	7	5	657	2	92	156	(52)	100	58	(61)	23	70	951
Financing expenses														(116)
Other expenses, net of original differences														(164)
Taxes on income														(145)
Minority interest														(201)
Net loss														325

* See Note 28B(1).

Note 28 - Segment Information - Consolidated

A. Information with respect to business segments (cont'd)

				Fertilizers										
	Potash	Phosphate	Eliminations	Total	Industrial products	Agricultural products*	Performance products	Metallurgy	Shipping	Energy	Technology & common.	Other activities	Eliminations	Total consolidated
	2003	2003	2003	2003	2003	2003	2003	2003	2003	2003	2003	2003	2003	2003
	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
Other information:														
Segment assets	**4,000**	**2,771**	**(174)**	**6,597**	**3,681**	**-**	**1,442**	**559**	**457**	**544**	**636**	**372**	**(64)**	**14,224**
Joint assets not allocated among the segments														**1,598**
Total consolidated assets														**15,822**
Segment liabilities														
Joint liabilities not allocated	**1,454**	**1,008**	**(167)**	**2,295**	**1,624**	**-**	**671**	**97**	**-**	**-**	**784**	**181**	**(552)**	**5,100**
among the segments														**6,638**
Total consolidated liabilities														**11,738**
Capital expenses	**297**	**68**	**-**	**365**	**85**	**-**	**90**	**4**	**-**	**-**	**81**	**15**	**(2)**	**638**
Depreciation and amortization	**239**	**165**	**-**	**404**	**310**	**-**	**90**	**22**	**-**	**-**	**17**	**24**	**-**	**867**
Depreciation and amortization not allocated among the segments														**5**
Total depreciation and amortization														**872**

* See Note 28B(1).

Note 28 - Segment Information - Consolidated

A. Information with respect to business segments (cont'd)

	Fertilizers													
	Potash	**Phosphate**	**Eliminations**	**Total**	**Industrial products**	**Agricultural products***	**Performance products**	**Metallurgy**	**Shipping**	**Energy**	**Technology & common.**	**Other activities**	**Eliminations**	**Total consolidated**
	2002	**2002**	**2002**	**2002**	**2002**	**2002**	**2002**	**2002**	**2002**	**2002**	**2002**	**2002**	**2002**	**2002**
	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**
Income and loss data:	2,316	1,765	-	4,081	2,247	395	2,064	293	-	-	-	285	-	**9,365**
Other operating sales and revenues, net:														
Unaffiliated customers														
Inter-segment	371	222	(99)	494	48	-	18	67	-	-	-	119	(746)	-
Total other operating sales and revenues, net	2,687	1,987	(99)	4,575	2,295	395	2,082	360	-	-	-	404	(746)	**9,365**
Operating income (loss)	561	28	-	589	47	120	199	(62)	-	-	(1)	15	69	**976**
Non-allocable expenses														**(72)**
Operating income	561	28	-	589	47	120	199	(62)	-	-	(1)	15	69	**904**
Share in results of affiliates	-	-	-	-	-	-	-	-	(21)	(27)	(98)	(1)	-	**(147)**
Amortization of original differences	(16)	(5)	-	(21)	(11)	-	-	-	-	-	-	-	-	**(32)**
Segment earnings (loss)	545	23	-	568	36	120	199	(62)	(21)	(27)	(99)	14	69	**725**
Financing expenses														**(359)**
Other expenses, net of original differences														**(289)**
Taxes on income														**(189)**
Minority interest														**(187)**
Net loss														**(299)**

* See Note 28B(1).

Note 28 - Segment Information - Consolidated

A. Information with respect to business segments (cont'd)

	Fertilizers													
	Potash	Phosphate	Eliminations	Total	Industrial products	Agricultural products*	Performance products	Metallurgy	Shipping	Energy	Technology & common.	Other activities	Eliminations	Total consolidated
	2002	2002	2002	2002	2002	2002	2002	2002	2002	2002	2002	2002	2002	2002
	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
Other information:														
Segment assets	4,029	3,107	-	7,136	4,102	-	1,572	579	380	495	231	338	(2,103)	12,730
Joint assets not allocated among the segments														3,499
Total consolidated assets														16,229
Segment liabilities	1,385	993	-	2,378	1,889	-	730	85	-	-	438	140	(2,154)	3,506
Joint liabilities not allocated among the segments														8,887
Total consolidated liabilities														12,393
Capital expenses	512	61	-	573	180	-	100	7	-	-	125	12	-	997
Depreciation and amortization	207	189	-	396	240	-	93	24	-	-	190	26	-	969
Depreciation and amortization not allocated among the segments														7
Total depreciation and amortization														976

* See Note 28B(1).

Note 28 - Segment Information - Consolidated

A. Information with respect to business segments (cont'd)

	Fertilizers													
	Potash	**Phosphate**	**Eliminations**	**Total**	**Industrial products**	**Agricultural products***	**Performance products**	**Metallurgy**	**Shipping**	**Energy**	**Technology & common.**	**Other activities**	**Eliminations**	**Total consolidated**
	2002	**2002**	**2002**	**2002**	**2002**	**2002**	**2002**	**2002**	**2002**	**2002**	**2002**	**2002**	**2002**	**2002**
	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**
Income and loss data:														
Other operating sales and revenues, net:														
Unaffiliated customers	1,821	1,807	-	3,628	2,252	432	1,820	310	-	-	-	322	-	8,764
Inter-segment	358	208	(82)	484	73	-	10	70	-	-	-	126	(763)	-
Total other operating sales and revenues, net	2,179	2,015	(82)	4,112	2,325	432	1,830	380	-	-	-	448	(763)	8,764
Operating income (loss)	521	31	(1)	551	57	136	151	(127)	-	-	-	2	33	803
Unallocatable expenses														(83)
Operating income														720
Share in results of affiliates	-	-	-	-	(1)	-	-	-	28	(5)	(64)	-	-	(42)
Amortization of original differences	(17)	(6)	-	(23)	(13)	-	-	-	-	-	-	-	-	(36)
Segment earnings (loss)	504	25	(1)	528	43	136	151	(127)	28	(5)	(64)	2	33	642
Financing expenses														(434)
Other expenses, net of original differences														(1,022)
Taxes on income														151
Minority interest														383
Net income														(280)

* See Note 28B(1).

Note 28 - Segment Information - Consolidated (cont'd)

B. Additional information with respect to geographic segments:

1. Business segments

There is a series of multilateral international agreements designed to reduce the depletion of the ozone layer by various chemical substances, according to which the consumption and use of methyl bromide, which is produced by the Bromine Group and which is included under the Segment “Agricultural Products” (the annual sales of which in the 3 years ended December 31, 2002 amounted to approximately 15%–20% of consolidated Group sales), is supervised. Production of methyl bromide will be reduced in countries party to the agreements, as follows:

i) In developed countries – from 1999 – by 25% relative to the amount produced in 1991; from 2002 – by 50%; from 2003 – by 70%, and from 2005 – complete discontinuance.

ii) In developing countries – a freeze, from 2002–2004, according to average production and consumption in the years 1995–1998, in 2005 – a reduction of 20% and from 2015 – complete discontinuance.

After discontinuance of production and usage of methyl bromide as above, additional production will be permitted only for exceptional uses, and only after reasonable steps have been taken to reduce its usage and the discharge thereof into the atmosphere.

Anticipated sales of methyl bromide of the Bromine Group and profits thereon will decrease as a result of the reduction in production and sales.

The Bromine Group is seeking alternatives to methyl bromide.

Note 28 - Segment Information - Consolidated (cont'd)

B. Additional information with respect to geographic segments: (cont'd)

2. Geographical segments

Set forth below is sales' data – on a consolidated basis – classified based on geographic areas (based on customer location):

	2003	2002	2001
	NIS millions	NIS millions	NIS millions
Europe	**4,956**	4,178	3,587
Asia	**1,762**	1,784	1,770
North America	**1,012**	1,109	1,241
South America	**1,198**	1,017	932
Other	**398**	396	313
	9,326	8,484	7,843
Israel	**892**	881	921
Total	**10,218**	9,365	8,764

Set forth below is sales' data – on a consolidated basis – classified based on geographic areas based on asset location):

	2003	2002	2001
	NIS millions	NIS millions	NIS millions
Israel	**5,785**	6,090	6,189
Europe	**4,587**	3,310	2,690
United States	**245**	311	269
Other	**42**	32	19
	10,659	9,743	9,167
Transfers – mainly from Israel	**(441)**	(378)	(403)
Total	**10,218**	9,365	8,764

Note 28 - Segment Information - Consolidated (cont'd)

B. Additional information with respect to geographic segments: (cont'd)

2. Geographical segments (cont'd)

Presented below is data on operating earnings based on the geographic areas from which they were produced or obtained:

	2003	2002	2001
	NIS millions	NIS millions	NIS millions
Israel	**658**	838	642
Europe	**201**	60	81
United States	**(9)**	3	(2)
Other	**33**	3	(1)
Total	**883**	904	720

Following is data with respect to the carrying value of segment assets and additions to fixed assets and intangible assets, classified based on the geographical area in which the assets are located:

	Carrying value of the segment's assets		Additions to investments in fixed assets and intangible assets	
	For the year ended December 31		For the year ended December 31	
	2003	2002	2003	2002
	NIS millions	NIS millions	NIS millions	NIS millions
Israel	**10,517**	12,484	**370**	478
Europe	**4,462**	3,250	**247**	472
United States	**418**	398	**15**	12
Other	**425**	97	**6**	35
Total	**15,822**	16,229	**638**	997

Note 28 - Segment Information - Consolidated (cont'd)

B. Additional information with respect to geographic segments: (cont'd)

2. Geographical segments (cont'd)

Following is data with respect to depreciation and amortization based on geographical area:

	2003	2002	2001
	NIS millions	NIS millions	NIS millions
Israel	**597**	**750**	**675**
Europe	**240**	**190**	**234**
United States	**31**	**33**	**30**
Other	**4**	**3**	**3**
Total	**872**	**976**	**942**

3. Segment assets and liabilities

Segment assets include all operating assets used by a segment and consist principally of cash and cash equivalents, receivables, inventories and fixed assets, net of allowances and provisions. While most such assets can be directly attributed to individual segments, the carrying value of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities include all operating liabilities and consist principally of trade payables, wages, and taxes currently payable and accrued liabilities (including severance pay).

4. Transfers among segments

Segment revenue, segment expenses and segment results include transfers among business segments and geographical segments. Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar goods. Those transfers are eliminated in consolidation.

Note 29 - Related and Interested Parties

A. General

The Israel Securities Authority has exempted the Corporation from the requirement of giving details of transactions between the Corporation and its interested parties. The exemption relates to transactions effected in the ordinary course of business and at ordinary market terms.

ZIM has several engagements with corporations of the Ofer Group, a controlling shareholder of the Corporation, which were carried out during the ordinary course of business and at regular market conditions. The engagements include principally the leasing of ships by ZIM from companies of the Ofer Group, joint ownership of ZIM and companies of the Ofer Group in foreign companies which own ships leased by ZIM and which are operated by companies of the Ofer Group, provision of guarantees for loans received from banks for the acquisition of ships, joint ownership of an agent engaged in leasing transactions as well as purchasing and selling of ships. In addition during the ordinary course of its business ZIM leases real estate from the Ofer Brothers Group.

Details of balances and transactions with related and interested parties as well as details of extraordinary transactions or transactions of an unusual volume with related and interested parties, if any, are disclosed in the appropriate notes to the financial statements.

B. Benefits to interested parties

	Year ended December 31		
	2003	**2002**	**2001**
	NIS thousands	**NIS thousands**	**NIS thousands**
Fees of directors who are not employees of the Corporation	**1,287**	881	941
Remuneration of interested parties employed by the Corporation (2 persons)	**8,170**	6,217	7,236

See Note 21C(1)(b) regarding indemnification and liability insurance of officers.

Note 29 - Related and Interested Parties (cont'd)

C. On January 31, 2003, the Corporation's CEO concluded his service with the Corporation as a salaried-employee. On February 2, 2003, an agreement was signed between a company wholly owned by the CEO) (hereinafter – "the Management Company") for the provision of management services to the Corporation – through the CEO – in consideration of a monthly payment, linked to the CPI, as determined in the agreement. The agreement is for a fixed period up to June 30, 2005.

The agreement provides that the Corporation has the right to forego the actual receipt of the services and, in such a case, the Corporation shall pay the Management Company the full consideration which it is entitled to up to the end of the fixed period of the agreement.

Pursuant to the agreement, the Management Company and the CEO committed to compensate and indemnify the Corporation in respect of any expenses which it incurs, including legal expenses and/or other payments, relating to a demand or claim the basis of which is the existence of an alleged employer–employee relationship between the CEO and the Corporation in the period from the date the agreement took effect.

Note 30 - Financial Instruments and Risk Management

A. General

The Group is exposed to risks deriving from fluctuations in exchange rates in a large number of currencies, interest rates, the rate of inflation, and prices of products and raw materials. In order to reduce these risks, the Group uses financial instruments, including derivative financial instruments, as described below.

The Group is exposed to losses in respect of credit if the other parties to the financial instruments will fail to meet their obligations. Nevertheless, the Group does not expect that to happen considering that the other parties are Israeli or foreign banks. The Group does not obtain security in respect of such financial instruments.

The Group does not issue or hold financial instruments for commercial purposes.

B. Exchange rate risk management

For the purpose of exchange rate risk management the Group makes use of forward transactions and currency options, which are intended to hedge cash flows deriving from existing assets and liabilities as well as sales and purchases of goods and services in the framework of firm or anticipated commitments (based on a budget of up to one year) affected by fluctuations in the exchange rate.

As at December 31, 2003, the Group has open forward transactions in the notional amount of $16 million as well as purchased and written currency options ("collars") in the notional amount of 123 million, as well as other currency options written in the notional amount of 14 million.

Note 30 - Financial Instruments and Risk Management (cont'd)

C. Interest rate risk management

The Group makes use of SWAP and IRS transactions, and options mainly in order to reduce the exposure to interest rates according to its expectations regarding fluctuations in interest rates. As part of its interest rate swap policy, the Corporation exchanges with banks, at regular intervals, amounts of interest based on variable interest rates with amounts of interest based on fixed interest rates, that are calculated on agreed notional amounts.

Most of the transactions are for periods of between three and five years.

The Corporation has interest rate swap transactions in which it receives a variable interest rate based on the six-month LIBOR rate (as at December 31, 2003 – 1.2%) and it pays interest at a fixed rate of 2.63%. A significant part of these transactions combine the writing of options, according to which if the variable interest rate, based on the LIBOR rate, reaches between 5.5%–6%, the transactions are cancelled. As at December 31, 2003, open transactions were included in the Corporation and consolidated balance sheets, in the amount of $35 million.

In addition, the Group purchased and wrote interest options which fix the LIBOR interest rate in the range of 2% to 6% (collar). As at December 31, 2003, these options cover a notional amount of $276 million of which $100 million is in the Corporation. In order to lessen the costs of these transactions, some of them completely expire or are frozen until the following quarter if the variable interest rate, based on the LIBOR rate, reaches 6.5%–7.5% on the date the interest rate is determined.

In addition, the Group has "CAP" options, which assure a ceiling for the LIBOR interest rates of 5.5% and 3% which, as at December 31, 2003, cover notional amounts of $10 million and $30 million, respectively.

D. Product and raw material price risk management

An affiliate executes swap transactions to hedge its cash flows, against fuel price fluctuations related to the coming year's purchases of fuel for current operations.

An affiliate executes transactions in futures, swap and options, in order to hedge against price fluctuations in crude oil and in its products, and in order to hedge future margins.

E. Concentration of credit risk

Credit risk represents the loss as at the balance sheet dates that may be caused from the other party not being able to fulfill its obligations.

The cash and cash equivalents and the short-term deposits (including current maturities of long-term deposits) of the Group are deposited mainly in banks and financial institutions in Israel, Europe and the USA.

Note 30 - Financial Instruments and Risk Management (cont’d)

E. Concentration of credit risk (cont'd)

The marketable securities of the Group are mainly debentures of Israeli and foreign corporations as well as debentures of the Government of Israel and mutual funds that invest mainly in debentures. The Group evaluates that the credit risk in respect of these balances is low.

Most of the Group's sales are made to a large number of customers and, therefore, exposure to a concentration of credit risk in respect of trade receivables is limited. The Group regularly examines the quality of its customers and includes in its accounts an appropriate provision for doubtful debts. Some of the trade receivables are covered by foreign trade risk insurance and by the receipt of other collaterals.

F. Fair value of financial instruments

The financial instruments of the Group include mainly, the following:

Non-derivative assets – Cash and cash equivalents, marketable securities, investments, short-term loans and deposits, other receivables, investments and long-term receivables.

Non-derivative liabilities – Short-term credit, other payables, loans and other long-term liabilities and derivative financial instruments.

Because of their nature, the fair value of the financial instruments included in the Group's working capital, is not significantly different from their value as presented in the financial statements. Marketable securities are exposed to fluctuations in market prices (market risks). Debentures are exposed to interest rate risks, since fluctuations in interest rates on the money market can influence their fair value and thus also influence the market value of securities. The fair values of investments, long-term receivables, loans and other long-term liabilities are also close to their value in the financial statements, since these financial instruments bear interest mainly at a rate close to the market rate.

The fair value of the derivative financial instruments as at December 31, 2003, reflects a net loss of NIS 26 million in relation to the amounts at which they are presented in the Corporation's balance sheet (NIS 58 million in the consolidated balance sheet), which stems mainly from transactions interest hedging on long-term loans. The fair value of these instruments usually reflect the amounts which it is assumed that the Corporation would receive were the transactions to be closed out on the balance sheet dates.

Note 30 - Financial Instruments and Risk Management (cont'd)

G. Linkage terms of monetary balances

Composition as at December 31, 2003

	In dollars or linked thereto	In foreign currency or linked thereto	Linked to the CPI	Unlinked	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Current assets	**772**	**1,054**	**319**	**859**	**3,004**
Non-current assets (including current maturities)	**10**	**34**	**42**	**18**	**104**
	782	**1,088**	**361**	**877**	**3,108**
Current liabilities	**2,596**	**1,466**	**8**	**1,215**	**5,285**
Long-term liabilities (including current maturities)	**3,728**	**871**	**487**	**375**	**5,461**
	6,324	**2,337**	**495**	**1,590**	**10,746**

Note 31 - Events Occurring Subsequent to the Balance Sheet Date

1. Regarding an issuance of Tower – see Note 7.E(1)a.

2. Regarding acquisition of ZIM shares from the State by the Corporation – see Note 7.E(1)e.

3. Regarding conversion of debentures in ICL shares – see Note 16.

4. Regarding change of the Articles of Association of the pension funds pursuant to the Retirement Age Law, 2004, – see Note 17.

5. Regarding the judgment in respect of a claim of Dead Sea Works – see Note 17.D.

6. Regarding contingent liabilities subsequent to the balance sheet date – see Note 18.B

7. Regarding the Supreme Court's decision regarding ORL's concession – see Note 18.D.2.

Note 32 - Financial Statements of the Corporation in Nominal Historical Values

A. Balance sheets

	2003	2002
	NIS millions	NIS millions
Current assets		
Cash and cash equivalents	**2**	4
Short-term loans	**584**	437
Other receivables	**6**	5
	592	446
Investments		
Investee companies	**2,780**	3,395
Other investments	**18**	4
	2,798	3,399
Deferred expenses	**2**	2
	3,392	3,847
Current liabilities		
Short-term credit from bank and others	**221**	164
Other payables	**15**	25
	236	189
Long-term liabilities		
Debentures convertible into shares of the Corporation	**247**	249
Liabilities to banks and others	**1,117**	989
	1,364	1,238
Shareholders' equity	**1,792**	2,420
	3,392	3,847

Note 32 - Financial Statements of the Corporation in Nominal Historical Values (cont'd)

B. Statements of earnings

	2003	2002	2001
	NIS millions	NIS millions	NIS millions
Income			
Corporation's equity in earnings (losses) of investee companies, net	**789**	(264)	(169)
	789	(264)	(169)
Expenses			
Financing (income) expenses, net	**(2)**	133	145
General and administrative expenses	**4**	2	2
Other expenses, net	**9**	3	2
	11	138	149
Net earnings (loss) for the year	**778**	(402)	(318)

* Reclassified.

Note 32 - Financial Statements of the Corporation in Nominal Historical Values (cont'd)

C. Statements of shareholders' equity

	Share capital	Capital reserves	Shares of the Corporation held by a subsidiary	Proposed dividend after the balance sheet date	Retained earnings	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Balance as at January 1, 2001	6	572	(7)	-	1,559	2,130
Changes in 2001:						
Net loss for the year	-	-	-	-	(318)	(318)
Issuance of capital (net of issuance expenses)	1	262	-	-	-	263
Dividend						
Capital reserves	-	32	-	-	-	32
Purchase of Corporation shares held by a subsidiary	-	-	(13)	-	-	(13)
Balance as at December 31, 2001	7	866	(20)	-	1,241	2,094
Changes in 2002:						
Net loss for the year	-	-	-	-	(402)	(402)
Proposed dividend after the balance sheet date	-	-	-	100	(100)	-
Capital reserves	-	96	-	-	-	96
Issuance of capital	-	(3)	7	-	-	4
Balance as at December 31, 2002	7	959	(13)	100	739	1,792
Changes in 2003:						
Net earnings for the year	-	-	-	-	778	778
Dividend	-	-	-	(100)	(36)	(136)
Capital reserves	-	(14)	-	-	-	(14)
Issuance of capital	-	(3)	3	-	-	-
Balance as at December 31, 2003	7	942	(10)	-	1,481	2,420

Annex - Schedule of Investee Companies of the Group as at December 31, 2003

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Israel Corporation Ltd.	Zim Israel Navigation Co. Ltd.	48.9	48.9	affiliate
	Oil Refineries Ltd.	26.0	26.0	affiliate
	Israel Chemicals Ltd.**	*27.3	*27.3	fully consolidated subsidiary
	Elram Housing Corporation - limited partnership	*49.0	49.0	proportionately consolidated partnership
	H.L. Kerur Vetiful Ltd.	100.0	100.0	fully consolidated subsidiary
	H.L. Finance and Issuance Ltd.	100.0	100.0	fully consolidated subsidiary
	H.L. Management and Consultants (1986) Ltd.	100.0	100.0	fully consolidated subsidiary
	H.L. (Holdings- ICL) Ltd.	100.0	100.0	fully consolidated subsidiary
	H.L. Acquisitions ICL (1998), Ltd.	100.0	100.0	fully consolidated subsidiary
	H.L. (Kislev, 1998), Ltd.	100.0	100.0	fully consolidated subsidiary
	Orchot Cochavim, Ltd.	100.0	100.0	fully consolidated subsidiary
	Israel Corporation Trust Company Ltd.	100.0	100.0	fully consolidated subsidiary
	Combit Ltd.	100.0	100.0	fully consolidated subsidiary (inactive)
	Israel Corporation Technologies (ICTech) Ltd.	100.0	100.0	fully consolidated subsidiary
	Piryon - Trust Company Investment Ltd.	100.0	100.0	fully consolidated subsidiary
	Kol 1 Investments in Communications (H.L.) Ltd.	100.0	100.0	fully consolidated subsidiary
	Mars Information Products Group Ltd.	50.0	50.0	proportionately consolidated investee
	Waste Management (WM) Israel Ltd.	20.0	20.0	affiliate
	PSINet Europe B.V. Netherlands	61.4	61.4	affiliate
	Sorbic Holdings Ltd.	61.4	61.4	affiliate
	Oren Semiconductor	23.5	23.5	affiliate
Zim Israel Navigation Co. Ltd.	Overseas Freighters Manila Inc.	40.0	40.0	affiliate
	Thai Star Shipping Co. Ltd. Thailand	49.0	49.0	affiliate
	Overseas Commerce Ltd.	50.0	50.0	affiliate
	Negev Star Ltd.	* 50.0	50.0	affiliate
	Star Shipping Portugal Ltd.	50.0	50.0	affiliate
	Sun Hing Shipping Co. Ltd. Hong Kong	50.0	50.0	affiliate
	Zim-Rom Shipping Ltd.	50.0	50.0	affiliate
	Reynold Van Lines Ltd. Hong Kong	50.0	50.0	affiliate
	T.Y.M. Transport Inter Modal	50.0	50.0	affiliate
	Lagos & Niger Shipping Agencies Ltd. Nigeria	97	97	affiliate
	Joint Transport International Services Ltd.	100.0	100.0	affiliate
	Al Hout Yam Ltd.	100.0	100.0	affiliate
	Astromar S.L. Madrid	51.0	51.0	affiliate
	Astramaris Shipping Europe GmbH	100.0	100.0	affiliate
	Astramaris Europe B.V. - Roterdam	100.0	100.0	affiliate
	Gal Marine Ltd.	100.0	100.0	affiliate
	Globe Star Shipping Pty. Ltd. Australia	100.0	100.0	affiliate
	Gold Maritime Co. Ltd. Japan	99.0	99.0	affiliate
	M. Dizengoff & Co. P & I Representatives Ltd.	100.0	100.0	affiliate
	M. Dizengoff & Company Ltd.	100.0	100.0	affiliate
	Hellastir Shipping Enterprises Ltd. Greece	100.0	100.0	affiliate
	Hellastir Maritime S.A. Greece	100.0	100.0	affiliate

(1) Including shares which were received as a dividend after balance sheet date.

* The investee is also held by other Group Companies.

** The Company is traded on the Tel Aviv Stock Exchange.

Annex - Schedule of Investee Companies of the Group as at December 31, 2003 (cont'd)

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Zim Israel Navigation Co. Ltd.	Astramaris Shipping Europe N.V. Antwerp	100.0	100.0	affiliate
	Marseille Consignation S.A. France	50.0	50.0	affiliate
	Zim Do Brazil Ltd.	100.0	100.0	affiliate
	Star Agenzia Maritima (Genoa) S.R.L.	100.0	100.0	affiliate
	Star East Africa Co. Kenya	100.0	100.0	affiliate
	Star Shipping Agencies (Singapore) Pte. Ltd.	50.0	50.0	affiliate
	Stellahaven Expeditie bedrijf Belgium	100.0	100.0	affiliate
	C.C.T. GMBH Germany	51.0	51.0	affiliate
	Polaris Shipping (PTY) Ltd. South Africa	100.0	100.0	affiliate
	Zim American Israeli Shipping Co. Inc.	100.0	100.0	affiliate
	Zim Israel Navigation Company (Canada) Ltd.	100.0	100.0	affiliate
	Kedem Land Bridge Co. Ltd.	100.0	100.0	affiliate
	Carib Star shipping Limited Jamaica	70.0	70.0	affiliate
	Sela Technologies Ltd.	100.0	100.0	affiliate
	Arebee Star Maritime Agency P.V.T. Ltd.	50.0	50.0	affiliate
	Welz-Zim Ltd.	50.0	50.0	affiliate
	Triangular Investments Limited	50.0	50.0	affiliate
	United Paradise Ltd.	50.0	50.0	affiliate
	Jamaica Container Repair Services Ltd.	100.0	100.0	affiliate
	Sun Hing Shipping (China) Co. Ltd.	50.0	50.0	affiliate
	Bahr Behrend Agencies Ltd.	50.0	50.0	affiliate
	Sun Sypress Shipping Co. Ltd.	50.0	50.0	affiliate
	Reynold Van Lines (China) Ltd.	50.0	50.0	affiliate
	Star Shipping Argentina	50.0	50.0	affiliate
	Ramon Inc.	100.0	100.0	affiliate
	Zim Israel Navigation (China) Co. Ltd.	100.0	100.0	affiliate
	Intermodal Shipping Agencies Ghana Ltd.	50.0	50.0	affiliate
	Star Lanka Shipping Ltd.	50.0	50.0	affiliate
	Star Shipping (Vietnam) Ltd.	50.0	50.0	affiliate
	Intermodal Shipping Agencies (Benin)	50.0	50.0	affiliate
	Star East Africa (T)	100.0	100.0	affiliate
	Zim Logistic (China) Ltd.	100.0	100.0	affiliate
	Ramon London	100.0	100.0	affiliate
	New Log Ltd.	100.0	100.0	affiliate
	Stella Maries Italy S.R.L.	50.0	50.0	affiliate
	Beltzim (Holdings) A/S	50.0	50.0	affiliate
	Blastar A/S	50.0	50.0	affiliate
	Kingdom Lu a inter. Logistic Co.	32.0	32.0	affiliate
Oil Refineries Ltd.	Haifa Basic Oils Ltd.	50.0	50.0	affiliate
	Gadot Biochemical Industries Ltd.	26.0	26.0	affiliate
	United Petroleum Export Company Ltd.	25.0	25.0	affiliate
	Tanker Services Ltd.	25.0	25.0	affiliate
	ERD (Energy Resources Development) Ltd.	* 25.0	25.0	affiliate
	Carmel Olefins Ltd.	* 50.0	50.0	affiliate
	Gadiv Petrochemical Industries Ltd.	100.0	100.0	affiliate
	Israel Petrochemical Enterprises Ltd.	12.6	12.6	affiliate
Gadot Biochemical Industries Ltd.	Gad Mill Ltd.	100.0	100.0	affiliate
	Gadot Bio-chem, USA	100.0	100.0	affiliate
	Gadot Bio-chem, Europe	100.0	100.0	affiliate
	Bexitol A.G.	100.0	100.0	affiliate
	Bexitol Establishment	100.0	100.0	affiliate

* The investee is also held by other Group companies.

Annex - Schedule of Investee Companies as at December 31, 2003 (cont'd)

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Carmel Olefins	Carmel Olefins (U.K.) Ltd.	100.0	100.0	affiliate
	Colins Ltd.	100.0	100.0	affiliate
	Carmel Olefins (Marketing) 1990	100.0	100.0	affiliate
Israel Petrochemical Activities Ltd.	Carmel Olefins Ltd.	* 50.0	50.0	affiliate
Israel Chemicals Ltd.	Dead Sea Works Ltd.	100.0	100.0	fully consolidated subsidiary
	Dead Sea Bromine Company Ltd.	100.0	100.0	fully consolidated subsidiary
	Rotem Amfert Negev Ltd.	100.0	100.0	fully consolidated subsidiary
	Dead Sea Periclase Ltd.	100.0	100.0	fully consolidated subsidiary
	Mifalei Tovala Ltd.	100.0	100.0	fully consolidated subsidiary
	Rotem Amfert Negev B.V., The Netherlands	32.6	*32.6	fully consolidated subsidiary
	I.D.E. Technologies Ltd.	50.0	50.0	proportionately consolidated investee
	Negev Industrial Minerals Ltd.	100.0	100.0	fully consolidated subsidiary
	ICL Financing and Issuing Ltd.	100.0	100.0	fully consolidated subsidiary
	Ferson Chemicals Ltd.	100.0	100.0	fully consolidated subsidiary
	ICL Fine Chemicals Ltd.	100.0	100.0	fully consolidated subsidiary
	Tami (IMI) Institute for R&D Ltd.	100.0	100.0	fully consolidated subsidiary
	Dead Sea Magnesium Ltd.	65.0	66.7	fully consolidated subsidiary
	P.A.M.A (Energy Resources Development) Ltd.	*25.0	25.0	affiliate
	NMT Nehasim Ltd.	100.0	100.0	affiliate
Dead Sea Works Ltd.	Ashli Chemicals B.V., Holland	100.0	100.0	fully consolidated subsidiary
	Ashli Chemicals Ltd., England	100.0	100.0	fully consolidated subsidiary
	Potash Technology Industries Israel	100.0	100.0	fully consolidated subsidiary
	Turris Werke GmbH, Germany	100.0	100.0	fully consolidated subsidiary
	ICL Fertilizers	50.0	50.0	fully consolidated subsidiary
	Cleveland Potash Ltd., U.K.	100.0	100.0	fully consolidated subsidiary
Ashli Chemicals (Holland) B.V., Holland	Potash Technology Industries B.V. Holland	92.5	92.5	fully consolidated subsidiary
	Iberpotash S.A., Spain	100.0	100.0	fully consolidated subsidiary
Potash Technology Industries B.V., Holland	Sino Israel Qinqhai Potash Company Ltd., China	33.3	33.3	affiliate
Iberpotash S.A. Spain	Trafico De Mercancias S.A., Spain	100.0	100.0	fully consolidated subsidiary
Eurocil Luxemburg S.A	Eurocil Luxemburg S.A.-Swiss finance branch, Switzerland	100.0	100.0	fully consolidated subsidiary
Ashli Chemicals Ltd., England	Y.H.M.S. Investment Establishment, Liechtenstein	100.0	100.0	fully consolidated subsidiary

* The investee is also held by other Group companies.

Annex - Schedule of Investee Companies as at December 31, 2003 (cont'd)

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Y.H.M.S. Investment Establishment, Liechtenstein	Potabrasil Ltd., Brazil	20.5	20.5	Affiliate
	Cogepotasse Ltd. Belgium	8.8	8.8	
Turris Werke GmbH, Germany	Cleveland Potash Ltd. (CPL), U.K	100.0	100.0	fully consolidated subsidiary
Dead Sea Bromine Company Ltd.	Bromine Compounds Ltd.	100.0	100.0	fully consolidated subsidiary
	Eurobrom B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	Bromine and Chemicals Limited, England	100.0	100.0	fully consolidated subsidiary
	Ameribrom Inc. U.S.A.	100.0	100.0	fully consolidated subsidiary
	Landchem Ltd., South Africa	100.0	100.0	fully consolidated subsidiary
	Bromokem (Far East) Ltd., Japan	100.0	100.0	fully consolidated subsidiary
	Euro Clearon Netherlands B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	Dead Sea M.F.R. (1993) - Registered partnership	50.0	50.0	fully consolidated subsidiary
Bromine Compounds Ltd.	Tetrabrom Technologies Ltd.	50.0	50.0	proportionately consolidated investee
	Dead Sea M.F.R. (1993)	*50.0	50.0	consolidated partnership
	Chemada Fine Chemicals Ltd.	26.0	26.0	affiliate
	L.B. Compounds Ltd.	50.0	50.0	Proportionately consolidated investee
	Soiltech Ltd. Israel	51.0	51.0	fully consolidated subsidiary
	Bromine Compounds Marketing (2002) Ltd., Israel	100.0	100.0	fully consolidated subsidiary
Eurobrom B.V., The Netherlands	Bromchemie B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	Traital S.A., France	100.0	100.0	fully consolidated subsidiary
	Bromchemie Holdings B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	Bromisia Ltd., Brazil	100.0	100.0	fully consolidated subsidiary
	L.Y.G.D.S.B., China	60.0	60.0	fully consolidated subsidiary
	Transbrom (Europe) B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	D.S.B. Co., Beijing, China	100.0	100.0	fully consolidated subsidiary
	J.V. Sinobrom, China	50.0	50.0	proportionately consolidated investee
	Rotem Amfert Negev B.V., The Netherlands	67.4	67.4	fully consolidated subsidiary
Ameribrom Inc., U.S.A.	Hy-Yield Inc. U.S.A.	100.0	100.0	fully consolidated subsidiary
	Hy-Yield Bromine Inc. U.S.A.	80.0	80.0	fully consolidated subsidiary
Rotem Amfert Negev Ltd.	Eurocil Holding B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	Negev Star Ltd.	* 51.0	51.0	affiliate
	Edom Mining and Development Ltd.	100.0	100.0	fully consolidated subsidiary
	Agro-Vant, Israel	25.2	25.2	affiliate
	Fertilizers and Chemicals Ltd.	100.0	100.0	fully consolidated subsidiary
	I.C.L. Fertilizers	50.0	50.0	fully consolidated subsidiary

* The investee is also held by other Group companies.

Annex - Schedule of Investee Companies as at December 31, 2003 (cont'd)

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Eurocil Holding B.V., The Netherlands	Rotem Holding GMBH, Germany	100.0	100.0	fully consolidated subsidiary
	Ampfert Fertilizers B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	Nutrisi N.V., Belgium	50.0	50.0	proportionately consolidated investee
	Rotem Kimyevi Maddeler Sanayi ve Ticaret A.S. Turkey	92.0	92.0	fully consolidated subsidiary
	Incap B.V. Holland	100.0	100.0	fully consolidated subsidiary
	BKG Puriphos B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	Intraeil Chemicals B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	P.M. Chemicals S.P.A., Italy	100.0	100.0	fully consolidated subsidiary
	Euro Clearon B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
Rotem Holding G.M.B.H., Germany	Eurocil G.M.B.H. Germany	100.0	100.0	fully consolidated subsidiary
	B.M. Chemie G.M.B.H. Germany	100.0	100.0	fully consolidated subsidiary
	Fibrisol Services, London	100.0	100.0	fully consolidated subsidiary
	Turris Asserkuranz G.M.B.H., Germany	100.0	100.0	fully consolidated subsidiary
	Sofima S.A., France	100.0	100.0	fully consolidated subsidiary
	Private Fleischeerschule G.M.B.H., Germany	*73.0	73.0	fully consolidated subsidiary
	Gerhard Ruff G.M.B.H., Germany	100.0	100.0	fully consolidated subsidiary
	Osterrichische AntiGerm Gerhard Ruff & Co. G.M.B.H., Austria	100.0	100.0	fully consolidated subsidiary
	Fibrisol Australia P.T.Y. Ltd.	100.0	100.0	fully consolidated subsidiary
	Penngar S.A., France	100.0	100.0	fully consolidated subsidiary
	Shanghai Tari International Ltd., China	51.0	51.0	fully consolidated subsidiary
	Yunnan B.K. Giulini Qunli Phosphate Co. Ltd., China	51.0	51.0	fully consolidated subsidiary
	Fibrisol Muscalla G.M.B.H., Germany	*34.7	34.7	fully consolidated subsidiary
	B.K Giulini Argentina S.A.	100.0	100.0	fully consolidated subsidiary
	B.K. Giulini Corporation SimiVally U.S.A.	100.0	100.0	fully consolidated subsidiary
	Tari Service Polska Sp. z.o.o. Poland	*95.0	95.0	fully consolidated subsidiary
	B.K. Giulini Japan Ltd., Japan	100.0	100.0	fully consolidated subsidiary
B.K. Giulini Chemie G.M.B.H. & Co. Germany	Fibrisol Muscalla G.M.B.H., Germany	*65.3	65.3	fully consolidated subsidiary
	Philopharm G.M.B.H., Germany	100.0	100.0	fully consolidated subsidiary
	Hoyerman Chemie G.M.B.H., Germany	100.0	100.0	fully consolidated subsidiary
	B.K. Mercosur S.A., Uruguay	100.0	100.0	fully consolidated subsidiary
	Fibrital S.a.r.l, Italy	100.0	100.0	fully consolidated subsidiary
	Rhenoflex G.M.B.H., Germany	100.0	100.0	fully consolidated subsidiary
	B.K. Giulini Chemie GmbH & Co. OHG representative office China	100.0	100.0	fully consolidated subsidiary
	Rotem-Do Brazil Ltd., Brazil	100.0	100.0	fully consolidated subsidiary
	Tari International N.Z. Ltd , New Zealand	100.0	100.0	fully consolidated subsidiary
	Tari International S.A. Ltd , South Africa	100.0	100.0	fully consolidated subsidiary
	Rhonoflex Dreyer S.A.R.L., France	10.0	10.0	fully consolidated subsidiary
	Tari Service, Polska S.p.0.0., Poland	5.0	5.0	fully consolidated subsidiary
Rhenoflex G.M.B.H. Germany	Gurit Worbla GmbH, Germany	100.0	100.0	fully consolidated subsidiary
	Flexotex GmbH, Germany	100.0	100.0	fully consolidated subsidiary
	Rhenoflex Dreyer S.A.R.L., France	*90.0	90.0	fully consolidated subsidiary
	Rhenoflex Portugal	100.0	100.0	fully consolidated subsidiary
Rhenoflex Dreyer S.A.R.L., France	Rhenoflex U.K. Ltd., England	100.0	100.0	fully consolidated subsidiary

* The investee is also held by other Group companies.

Annex - Schedule of Investee Companies as at December 31, 2003 (cont'd)

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Rotem do Brasil Ltd. Brasil	B.K.G. - Rotem Quimica do Brazil Ltd.	95.0	95.0	fully consolidated subsidiary
Fibrisol Muscalla G.M.B.H. Germany	Private Fleischerschule G.M.B.H. Germany	*27.0	27.0	fully consolidated subsidiary
Amfert Fertilizers B.V., The Netherlands	Amsterdam Fertilizers Deutechlone O.H.G., the Netherlands	*95.0	95.0	consolidated partnership
	Amsterdam Fertilizers BV, England	100.0	100.0	fully consolidated subsidiary
	Amsterdan Fertilizers BV, France	100.0	100.0	fully consolidated subsidiary
Amsterdam Fertilizers Deutschland O.H.G., Germany	Stodiek Dunger G.M.B.H, Germany	100.0	100.0	fully consolidated subsidiary
	Palazia, Dunger, G.M.B.H., Germany	100.0	100.0	fully consolidated subsidiary
Palazia Dunger G.M.B.H., Germany	Amsterdam Fertilizers Deutschland O.H.G., Germany .	* 5.00	5.00	consolidated partnership
Nutrisi Holding Belgium	Nutrichem N.V., Benelux	100.0	100.0	proportionately consolidated investee
	Fenasa, Spain	50.0	50.0	proportionately consolidated investee
	NU3 NV, Belgium	50.0	50.0	affiliate
NU3 NV, Belgium	G.N.V. SARL, France	50.0	50.0	proportionately consolidated investee
	NU3 B.V, The Netherlands	100.0	100.0	affiliate
Incap B.V. Holland	Intracap Insurance Ltd. Isle of Man	100.0	100.0	fully consolidated subsidiary
Euro Clearon B.V, The Netherlands	Clearon Holdings Inc., USA	100.0	100.0	fully consolidated subsidiary
Clearon Holdings Inc., U.S.A	Clearon Corp., U.S.A	100.0	100.0	fully consolidated subsidiary
	Clearon Technologies, U.S.A	100.0	100.0	fully consolidated subsidiary
BKG Puriphos B.V, The Netherlands	R.A.C Investments Ltd., Cayman Islands	100.0	100.0	fully consolidated subsidiary
	Asia Brom Ltd., Hong Kong	100.0	100.0	fully consolidated subsidiary
R.A.C Investments Ltd., Cayman Islands	Inversiones R.A.C Chile Ltd., Chile	100.0	100.0	fully consolidated subsidiary

Annex - Schedule of Investee Companies as at December 31, 2003 (cont'd)

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Asia Brom Ltd., Hong Kong	Asia Brom Resource Management Ltd., Hong Kong (ARM)	100.0	100.0	fully consolidated subsidiary
	Asia Brom Ltd Shanghai. Representative Office China	100.0	100.0	fully consolidated subsidiary
	I.C.L. Fertilizers (India) Private Ltd.	100.0	100.0	fully consolidated subsidiary
Asia Brome Resource Management Ltd., Hong Kong	Bromine Compounds Trading Company Ltd., Hong Kong	100.0	100.0	fully consolidated subsidiary
	D.D.F.R Corporation Ltd., Hong Kong	50.0	50.0	proportionately consolidated investee
	BK Giulini Hong Kong Limited, Hong Kong	100.0	100.0	fully consolidated subsidiary
	Asia Finance Resources Ltd., Hong Kong	100.0	100.0	fully consolidated subsidiary
	A.U.B. Storing and Services (Hong Kong) Ltd., Hong Kong	55.0	55.0	fully consolidated subsidiary
Bromine Compounds Trading Company Ltd., Hong Kong	Bromine Compounds Trading Company Ltd., Beijin Representative Office China	100.0	100.0	fully consolidated subsidiary
	Bromine Compounds Trading Company Ltd., Shanghai Representative Office China	100.0	100.0	fully consolidated subsidiary
Edom Mining and Development Ltd.	Keter Tovala Ltd.	100.0	100.0	fully consolidated subsidiary
Fertilizers and Chemicals Ltd.	Industrial Chemical Equipment Ltd., Israel	100.0	100.0	fully consolidated subsidiary
	Revivim in the Bay Ltd.	100.0	100.0	fully consolidated subsidiary
	Agriphuzia	49.5	49.5	consolidated partnership
	F&C Licoris Ltd., Israel	10.0	10.0	Cost
Industrial Chemical Equipment Ltd., Israel	Agripo I Services Ltd.	50.0	50.0	fully consolidated subsidiary
Agripo I Services Ltd.	Agriphuzia, Israel	1.0	1.0	consolidated partnership
Speciality Technologies Europe B.V. Holland	Scora S.A. France	100.0	100.0	fully consolidated subsidiary
Mifalei Tovala Ltd.	Sherut Rail & Road Transportation Services Registered Partnership (1990)	50.0	50.0	proportionately consolidated partnership
	M.T.T. Environmental Services	50.0	50.0	proportionately consolidated partnership
	M.M.M. Company United Landfill, Industries (1998), Ltd.	33.3	33.3	proportionately consolidated partnership
I.D.E Technologies Ltd.	Ambient Technologies Inc., USA	100.0	100.0	proportionately consolidated investee
	IDE Canaries S.A., Spain	100.0	100.0	proportionately consolidated investee
	LWP, Cyprus	95.0	95.0	proportionately consolidated investee
	Pelagos Desalination Services Cyprus	100.0	100.0	proportionately consolidated investee
	Detelca UTE, Spain	20.0	20.0	affiliate
	Indian Desalination Engineering PVT Ltd., India	50.0	50.0	proportionately consolidated investee
	V.I.D. Desalination Company Ltd., Israel	50.0	50.0	affiliate
	OTID Desalination Partnership	50.0	50.0	proportionately consolidated investee
	West Galilee Desalination Company	50.0	50.0	proportionately consolidated investee
	ADOM Ashkelon desalination	45.5	45.5	affiliate

* The investee is also held by other Group companies.

Annex - Schedule of Investee Companies as at December 31, 2003 (cont'd)

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Tami (IMI) Institute for R&D Ltd.	Potassium Nirate Ltd.	50.0	50.0	proportionately consolidated investee
	Novetide Ltd. Israel	50.0	50.0	proportionately consolidated investee
	Aqwise Water Technologies Ltd. Israel.	7.00	7.00	proportionately consolidated investee
	Magsens Ltd.	5.5	5.5	proportionately consolidated investee
Dead Sea Magnesium Ltd.	Magnesium Die casting Ltd.	100.0	100.0	fully consolidated subsidiary
	Magnesium Research Institute Registered Amuta	100.0	100.0	fully consolidated subsidiary
	M.R.I. Research & Development Ltd.	99.0	77.8	fully consolidated subsidiary
	Dead Sea Magnesium Inc., USA	100.0	100.0	fully consolidated subsidiary
H.L (Holdings - ICL) Ltd.	Israel Chemicals Ltd.	*14.4	14.4	fully consolidated subsidiary
H.L. Acquisitions ICL (1998) Ltd.	I.C.L. Ltd.	* 8.1	8.1	fully consolidated subsidiary
H.L. (Kislev,1998) Ltd.	I.C.L. Ltd.	* 3.3	3.3	fully consolidated subsidiary
Orchot Cochavim Ltd.	Elram Housing Corporation - Limited Partnership	* 1.0	1.0	proportionately consolidated partnership
Israel Corporation Technologies (ICTech) Ltd.	Tower Semiconductor Ltd.**	28.5	28.5	affiliate
	Udi International (1994) Ltd	100.0	100.0	fully consolidated subsidiary
Tower Semiconductor Ltd.	Tower Semiconductor U.S.A.	100.0	100.0	affiliate
	Saifun Semiconductor Ltd.	12.0	12.0	Cost
KOL 1 investments in Communications (H.L.) Ltd.	Xylonite Investments Group B.V.	100.0	100.0	fully consolidated subsidiary
Mars Information Product Group Ltd.	S.I.T. Software for Information Technology Ltd.	100.0	100.0	fully consolidated subsidiary
	CMS Compucenter Ltd.	100.0	100.0	fully consolidated subsidiary
	Mars Information Computer Networking Solutions Ltd.	100.0	100.0	fully consolidated subsidiary
	Mars Information Service Center Ltd.	100.0	100.0	fully consolidated subsidiary
	Orlink Ltd.	33.0	33.0	affiliate

* The investee is also held by other Group companies.
** The Company is traded on the Tel Aviv Stock Exchange.

Annex - Schedule of Investee Companies as at December 31, 2003 (cont'd)

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
PSINet Europe B.V.	PSINet Switzerland SARL	100.0	100.0	fully consolidated subsidiary
	PSINet Netherlands B.V.	100.0	100.0	fully consolidated subsidiary
	PSINet Belgium B.V.B.I	100.0	100.0	fully consolidated subsidiary
	PSINet Italy S.R.L	100.0	100.0	fully consolidated subsidiary
	PSINet Spain S.L.	100.0	100.0	fully consolidated subsidiary
	PSINet Europe SARL	100.0	100.0	fully consolidated subsidiary
	La Chaux-de-Fonds Branch Office	100.0	100.0	fully consolidated subsidiary
	PSINet France SARL	100.0	100.0	fully consolidated subsidiary
	PSINet G.B. Limited	100.0	100.0	fully consolidated subsidiary
	PSINet Realty & Datacer Europe SARL	100.0	100.0	fully consolidated subsidiary
	PSINet Germany GmbH	100.0	100.0	fully consolidated subsidiary
	PSINetworks Europe SARL	100.0	100.0	fully consolidated subsidiary
PSINet Netherlands B.V.	Unix Support Netherlands B.V.	100.0	100.0	fully consolidated subsidiary
PSINet Realty and Datacer Europe SARL	PSINet Datacer Netherlands B.V.	100.0	100.0	fully consolidated subsidiary
	PSINet Datacer France SARL	100.0	100.0	fully consolidated subsidiary
	PSINet Datacer Germany GmbH	100.0	100.0	fully consolidated subsidiary
	PSINet Datacer Switzerland SARL	100.0	100.0	fully consolidated subsidiary
	PSINet Realty Britain Ltd.	100.0	100.0	fully consolidated subsidiary
	PSINet Realty France SARL	100.0	100.0	fully consolidated subsidiary
PSINet Britain Limited	PSINet Workss GB Limited	100.0	100.0	fully consolidated subsidiary
	PSINet Limited (GB shelf)	100.0	100.0	fully consolidated subsidiary
	PSINet Datacer GB Limited	100.0	100.0	fully consolidated subsidiary
	A.U.net GB Limited	100.0	100.0	fully consolidated subsidiary
A.U.Net GB Limited	PSINet Jersey Limited	100.0	100.0	fully consolidated subsidiary

Annex - Schedule of Investee Companies as at December 31, 2003 (cont'd)

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
PSINetworks Europe SARL	Modem Holdings Ltd.	100.0	100.0	fully consolidated subsidiary
PSINet Hosting Centre Limited	Cordoba Holdings Limited	100.0	100.0	fully consolidated subsidiary
	London Hosting Centre Limited	100.0	100.0	fully consolidated subsidiary
Modern Holding Ltd.	PSINet Hosting Centre Limited	100.0	100.0	fully consolidated subsidiary
Pekafort B.V. The Netherlands	Eurocil Luxembourg S.A.	100.0	100.0	fully consolidated subsidiary
	B.K.G Puriphos B.V. The Netherlands	100.0	100.0	fully consolidated subsidiary
	Specialty Technologies Europe B.V. The Netherlands	100.0	100.0	fully consolidated subsidiary

Israel Corporation Ltd.

2003 Annual Report

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