Israel Corporation Ltd.

2004 Annual Report

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

Contents

Directors' Report to the Shareholders of Israel Corporation Ltd.

For the Year Ended December 31, 2004

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.

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 energy 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 and advanced technology 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 2004 and under the assumption that the reader also has the other sections of the said periodic report.

FINANCIAL POSITION

– The total assets, as at December 31, 2004, amounted to NIS 22,058 million, compared with NIS 15,929 million, as at December 31, 2003.

  The increase in the balance sheet, statement of earnings and cash flow categories stems mainly from the first time consolidation of the financial statements of ZIM Integrated Shipping Services Ltd. (hereinafter – "ZIM").

– The balance of long-term investments, loans and receivables as at December 31, 2004 amounted to NIS 1,337 million, compared with NIS 1,820 million as at December 31, 2003. The decline is attributable to the consolidation of ZIM.

– The long-term liabilities as at December 31, 2004 amounted to NIS 8,627 million, compared with NIS 6,098 million as at December 31, 2003.

– The working capital as at December 31, 2004 amounted to NIS 1,560 million, compared with NIS 376 million as at December 31, 2003.

- The Corporation's shareholders' equity as at December 31, 2004 amounted to NIS 3,612 million, compared with NIS 2,170 million as at December 31, 2003.

- The cash flows generated by operating activities in the current year amounted to NIS 2,190 million compared with NIS 1,901 million last year and NIS 1,623 million in 2002.

- The cash flows used in investing activities in the current year amounted to NIS 733 million compared with NIS 674 million last year and NIS 1,067 million in 2002.

RESULTS OF OPERATIONS

The Corporation ended the current year with earnings of NIS 1,376 million, compared with earnings of NIS 325 million last year.

The Corporation finished the fourth quarter with earnings of NIS 325 million, compared with NIS 75 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 $251 million compared with earnings of $103 million last year.

B. ZIM Integrated Shipping Services Ltd. (formerly – ZIM Israel Navigation Co. Ltd.) (hereinafter – "ZIM") finished the current year with earnings of $172 million compared with earnings of $47 million last year.

The Corporation's share in ZIM's income is calculated at the rate of 98% for most of the year, whereas last year the Corporation's share in ZIM's income was calculated at the rate of 49%. Regarding the acquisition of ZIM – see the Section "Changes in the Investments Portfolio".

C. Oil Refineries Ltd. (hereinafter – "ORL") finished the current year with earnings of NIS 773 million, compared with earnings of NIS 220 million last year. The Corporation reduced its share in ORL's earnings by NIS 136 million (see the Section "Changes in the Investments Portfolio").

D. Tower Semiconductor Ltd. (hereinafter – "Tower") finished the current year with a loss of $138 million, compared with a loss of $114 million last year.

In the current year, the Group included its share in Tower's losses, in the amount of NIS 133 million while, on the other hand, it reduced the balance of the provision for decline in value of its investment in Tower (that was recorded in 2002), in the amount of NIS 102 million.

Due to the continuing slowdown in the semiconductors' market as well as owing to the continuing decline in the market price of Tower's shares, and the significant difference created between the market value of the investment and its carrying value on the books, along with Tower's continuing losses, the Corporation decided to write down its investment in Tower and to set it at the average market value of Tower's shares in the period shortly before the signing date of the Corporation's financial statements. In the estimation of the Corporation's Management, the above-mentioned value constitutes a reasonable estimate of the recoverable amount.

As a result of that stated above, in the current year the Group included a provision for decline in the investment in Tower in the amount of NIS 48 million.

E. The financing expenses in the current year amounted to NIS 347 million in the current year compared with NIS 117 million last year.

F. The current year's results include non-recurring income, net, in the amount of NIS 510 million, compared with non-recurring expenses of NIS 60 million last year.

   The non-recurring income consists of mainly of capital gains, in the amount of NIS 551 million, and from a change in the Companies Tax rate, in the amount of NIS 120 million. (See also Section on various events occurring during the period of the report and subsequent to the balance sheet date).

   The Corporation's earnings after eliminating the non-recurring income/(expenses) amounted to NIS 866 million in the current year, compared with earnings of NIS 385 million last year.

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

A. ICL concluded the quarter with earnings of $82 million, compared with earnings of $14 million in the corresponding quarter last year.

B. ZIM concluded the quarter with earnings of $57 million, compared with earnings of $18 million in the corresponding quarter last year. The Corporation's share in ZIM's earnings is calculated at the rate of 98% compared with 49% in the corresponding quarter last year.

C. ORL concluded the quarter with earnings of NIS 218 million, compared with earnings of NIS 57 million in the corresponding quarter last year.

D. Tower concluded the quarter with a loss of $23 million, compared with a loss of $46 million in the corresponding quarter last year.

E. The results of the fourth quarter of the year include non-recurring income, in the amount of NIS 51 million, compared with non-recurring expenses in the amount of NIS 50 million in the corresponding quarter last year. The total regular earnings in the quarter amounted to NIS 274 million, compared with regular earnings of NIS 125 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.

CHANGES IN THE INVESTMENT PORTFOLIO

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

(1) 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 a net consideration of $75.1 million (including partial execution of the options granted to the underwriters).

In addition, Tower issued shares to Israel Corporation Technologies (I.C. Tech) Ltd. (hereinafter – "I.C. Tech"), the primary Wafer partners in Tower, and an additional partner in Tower (hereinafter – "the Investors") at a price of $7 per share for a consideration of $16.4 million, that was transferred to Tower in December 2003.

As a result of the public issuance, and after issuance of the share capital to the Investors, I.C. Tech's share in Tower declined to 21.7%, and the Group realized a capital gain of NIS 29 million.

(2) 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 amendment of the agreements, 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.

The total amount of the Corporation's liability to invest in Tower pursuant to the letter of commitment shall not exceed $50 million.

The Corporation's obligation under the letter of commitment is given against the commitment 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).

In addition, the letter of commitment contains certain restrictions with respect of sale of Tower shares.

As at the signing date of the financial statements, the balance of the Corporation's liability under the above-mentioned letter of commitment was $15 million.

Regarding Tower's compliance with the financial benchmarks, see the Section on Tower.

B. On February 5, 2004, the Corporation acquired all of the State's shares in ZIM International Shipping Services Ltd. (formerly – ZIM Israel Navigation Co. Ltd.) (hereinafter – "ZIM"), and during the period of the report the Corporation acquired part of the holdings of the other shareholders in ZIM. In total, the Corporation acquired 49% of ZIM's share capital at a cost of NIS 518 million. As at the balance sheet date, the Corporation holds 98% of ZIM's share capital.

The excess cost of the acquisition over the book value amounted to NIS 22 million and was allocated, net of the tax effect, to fixed assets and uncompleted voyages.

Up to December 31, 2003, the Corporation presented its investment in ZIM based on the equity method. Commencing January 1, 2004, ZIM's financial statements were consolidated for the first time. The Corporation's share in ZIM's results was calculated for the period from the acquisition date up to the balance sheet date.

C. In the second quarter of the period of the report, Israel Chemicals Ltd. (hereinafter – "ICL") sold its investment in Negev Industrial Minerals Ltd. (as well as in a sister company related thereto), for a consideration of $20 million. ICL's after-tax capital gain totals NIS 21 million and the Corporation's share is approximately NIS 11 million.

D. In the year of the report, the amount of the Corporation's investment in Oil Refineries Ltd. (hereinafter – "ORL") based on the equity method of accounting increased above the exercise price of the option. The exercise price of the option derives from the Corporation's notification to the Government on August 4, 2003, according to which, the Corporation decided, by virtue of the provisions of Appendix C of the Arrangement, to exercise the option to sell all its shares of ORL at a price constituting an average between the two overall valuations of ORL, subject to certain adjustments (see also ORL Concession Section).

Pursuant to the above, the Corporation set its investment in ORL at the exercise price of the option, in the amount of NIS 600 million, which is NIS 136 million less than the amount of the investment based on the equity method of accounting.

E. In the third quarter of the period of the report, PSINet Europe B.V. and Sorbie Holding BVI, subsidiaries of the Corporation held at the rate of 62% (hereinafter – "the PSI Group"), sold a number of their investee companies in Europe, in two separate transactions, for an aggregate consideration of $112 million. Up to the balance sheet date, $90 million was received in cash. Part of the balance of the consideration is scheduled to be received during 2005 and part thereof is contingent on adjustments and conditions spelled out in the agreements. The Corporation's share in the after-tax gain realized amounts to NIS 193 million.

F. In the fourth quarter of the year of account, a subsidiary of ICL sold all of its holdings in the shares of SQM, for a consideration of NIS 433 million. The Group realized a capital gain of NIS 99 million.

G. In the fourth quarter of the year of account, Tower sold all its shares in Saifun Semiconductor Ltd. for a consideration of $39 million. Pursuant to the agreement, under certain circumstances, Tower may receive additional amounts up to August 2005. The Group's gain on the sale amounted to $7 million.

Condensed Consolidated Quarterly Statement of Earnings

	1st Qtr. 2004	2nd Qtr. 2004	3rd Qtr. 2004	4th Qtr. 2004	Total for 2004
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues from sales, shipping and services	5,256	5,732	6,109	6,402	23,499
Cost of sales, shipping and services	4,161	4,457	4,647	4,905	18,170
Gross profit	1,095	1,275	1,462	1,497	5,329
Research and development, selling and administrative expenses	701	733	733	839	3,006
	394	542	729	658	2,323
Financing expenses, net	(72)	(105)	(92)	(78)	(347)
Other income, net	38	142	6	95	281
Income before taxes	360	579	643	675	2,257
Taxes on income	(140)	(35)	(266)	(105)	(546)
Income after taxes	220	544	377	570	1,711
Group's equity in income (losses) of affiliates	27	47	12	(55)	31
Minority interest in earnings of subsidiaries	(81)	(171)	(139)	(183)	(574)
Income from continuing operations	166	420	250	332	1,168
Income (loss) from discontinued operations	(15)	(11)	241	(7)	208
Net income for the period	**151**	**409**	**491**	**325**	**1,376**

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

ISRAEL CHEMICALS LTD.

ICL finished the period of the report with earnings of $250.5 million, compared with earnings of $103.1 million last year.

Sales of the ICL Group totaled $2,715 million in the year of the report, compared with $2,271 million last year, constituting an increase of 19.6%.
The increase in the Group's sales reflects an increase in turnover in all of the Group's segments, mainly due to an increase in demand that gave rise to an increase in prices and, in some of the segments, to an increase in quantities as well. The upward revaluation of the euro and the British pound against the dollar also contributed to the increase in revenues from sales in Europe.

The gross profit in the year account reached 34.5% of sales, compared with 31% of sales last year. The increase in the gross profit was generated by the increase in sales, as noted, and also by better utilization of the production capacity with respect to some of the products, and the continuation of the efficiency processes. The increase in the gross profit was offset to a certain extent by increases in the costs of some of the raw materials, an increase energy prices, damages resulting from work strikes, a decrease in the manufacture of some of the phosphate products, and an upward revaluation of the shekel against the dollar.

There was an increase in ICL's selling and marketing expenses and general and administrative expenses. The increase is explained by an increase in quantities sold, an increase in marine shipping prices and the effect of the upward revaluation of the shekel and the euro against the dollar.

Other expenses less other income amounted to $6.7 million in the year of account. The other income includes a gain on sale of shares of SQM, in the amount of $43.6 million, a capital gain from sale of Negev Minerals, in the amount of $4.4 million, and sale of real estate in Mifalei Tovala Ltd., in the amount of $5.2 million.

The other expenses include expenses relating to a write-down of production facilities, in the amount of $18.7 million, expenses relating to early retirement of employees, in the amount of $12.4 million, and a change in actuarial assumptions in the pension plan of a foreign subsidiary, in the amount of $12.9 million. In respect of heavy flooding in the stream channels, which caused the flooding of premises of some of ICL's facilities in Sdom, a provision was recorded equal to the insurance deductible, in the amount of $12.5 million.

In the prior year, the other expenses less the other income amounted to $43.7 million.

The financing expenses increased in the year of account mainly due to increase of the average dollar interest rate during the year.

ICL finished the fourth quarter of the year with earnings of $81.8 million, compared with earnings of $13.8 million last year. In the fourth quarter of the year there was an increase in sales of 32.4% over the fourth quarter of 2003.

The sales in the fourth quarter increased due to a quantitative increase in some of the segments, an increase in prices and an upward revaluation of the euro against the dollar. The cost of sales also increased due to increases in the prices of some of the raw materials, an increase in energy prices, as well as due to flood damage in the Dead Sea area.

ZIM ISRAEL NAVIGATION CO. LTD.

ZIM finished the current year with earnings of $171.8 million compared with earnings of $46.6 million last year. ZIM finished the fourth quarter of 2004 with earnings of $56.6 million compared with earnings of $17.8 million in the corresponding quarter of last year.

ZIM's revenues from shipping and related services in the year of account amounted to $2,527 million compared with $2,033 million last year – an increase of 24%. The increase in the sales turnover stems mainly from a 10% increase in the quantities shipped along with an 11% increase in the average price per container shipped.

The operating expenses and cost of services increased by 23% due to an increase in lease fees for ships of 65% over 2003 together with an increase in fuel costs.

The gross profit in the year of account came to $271.8 million compared with $180.8 million last year.

Depreciation expense amounted $74.9 million, about the same as last year.

The operating earnings in 2004 totaled $176.1 million versus $99.0 million in 2003.

Cash flows generated by operating activities in 2004 were $247.7 million compared with $147.6 million in 2003.

Cash flows used in investing activities, net, were $152.2 million in the year of account compared with $42.8 million last year, mainly due to the acquisition and equipping of ships.

The earnings in the fourth quarter were impacted mainly by a net capital gain, in the amount of $24 million deriving from the sale of ships.

In the year of account, ZIM sold 4 container ships, for a price of $142 million. ZIM's after-tax capital gain amounted to $42 million. The ships were leased by ZIM under operating leases for periods of 5–6 years.

Zim entered into for sale of three container ships that entered into effect upon delivery of the ships subsequent to the balance sheet date, in January 2005, for a price of $110 million. The after-tax capital gain that ZIM will record in 2005 amounts to $32 million. The ships will be leased by ZIM under operating leases for periods of 5–6 years.

In the year of account, there was a strike by the workers at Israel's seaports. The strike affected ZIM's operating and commercial activities. Problems were caused with respect to the time schedules for arrivals and departures of the ships operated by ZIM and a shortage of containers in various locations was created. As a result, there was an adverse effect on the regular service to customers worldwide. A small part of the additional expenses incurred due to the strike was collected from ZIM's customers. In addition, owing to the strike ZIM was unable to ship cargo due to a lack of available ships and equipment, which caused a loss of revenues.

Regarding the plan for equipping with 12 ships, see the Section "Events Occurring during the Period of the Report and Thereafter"

TOWER SEMICONDUCTOR LTD.

During the year of the report, Tower's sales totaled $126.1 million, compared with $61.4 million last year.

The cost of sales amounted to $228.4 million, compared with $122.4 million last year. The increase in the cost of sales is explained mainly by recording of the depreciation and amortization in connection with FAB2. Tower placed FAB2 in the third quarter of 2003 and as of this date the recording of depreciation and amortization commenced.

Tower finished the year with a loss of $137.8 million, compared with a loss of $114.1 million last year.

The financing expenses in the year of account totaled $29.7 million compared with $9.8 million last year.

Tower finished the fourth quarter of 2004 with a loss of $23.3 million, compared with a loss of $46.0 million in the corresponding quarter last year.

In the fourth quarter of 2004, Tower sold all its shares in Saifun Semiconductor Ltd. for a consideration of $38.7 million. Pursuant to the agreement, under certain circumstances, Tower may receive additional amounts up to August 2005. The net capital gain realized by Tower amounted to $32 million.

In the year of account, Tower raised $75.1 million, net, through issuance of 11.4 million shares on the stock exchange in the United States.

In 2003, Tower submitted a request to the Investments Center for approval of its updated plan for construction of FAB2, in light of the fact that the investment period of FAB2 will last longer than 5 years from the date the original approval from the Investments Center was received. Tower's Management believes, based on discussions it is carrying on with the Investments Center, that reaching a satisfactory arrangements regarding the matter is reasonable.

Pursuant to the credit agreement with the banks, Tower is required to comply with certain conditions and financial covenants (hereinafter – "the Financial Covenants"). As at the balance sheet date, mainly due to the slowdown in the semiconductor markets, Tower was not in compliance with some of the Financial Covenants. Tower has prepared an updated work plan for 2005, which is based on the existing and anticipated market conditions.

Subsequent to the balance sheet date, in January 2005, and in accordance with the work plan, Tower and the banks signed a letter of waiver on the part of the banks with respect to Tower's non-compliance with the Financial Covenants in the fourth quarter of the year of account, as well as an update of the Financial Covenants for 2005.

In the credit agreement with the banks it is stated that in the case of any violation, the banks may accelerate Tower's obligations and Tower will be forced, among other things, to immediately repay all of the loans it received from the banks (which at the balance sheet date amounted to $497 million) and the banks will be permitted to realize their available remedies in the credit agreement, including realization of liens recorded on all of Tower's assets.

In the second quarter of the year of account, Tower and the chipmaker, Siliconics Incorporated (hereinafter – "Siliconics"), an 80.4% owned subsidiary of Vishay Intertechnology, signed a long-term agreement for the production of semiconductors.

Siliconics will order chips from Tower that are manufactured in Tower's FAB1 factory, in the aggregate amount of $200 million during a period of 7 to 10 years.

In August 2004, Siliconics transferred to Tower an advance, in the amount of $20 million, mainly relating to acquisition of the equipment necessary to manufacture the products. This amount will serve as a credit against Siliconics' future purchases of the products.

Regarding the Corporation's share in Tower's results, see the "Results of Operations" section.

OIL REFINERIES LTD.

ORL finished the year with earnings of NIS 773 million, compared with earnings of NIS 220 million last year.

The year 2004 was characterized by continuing demand for fuel products stemming from the following reasons:

– Rapid growth throughout the world, mainly in the United States, China and India.

The terrorist activities in Saudi Arabia and Iraq.
– Hurricanes in the Gulf of Mexico.
– Threats by the OPEC cartel to cutback production.
– Expectation for a cold winter the United States, which is responsible for a quarter of the world's crude oil consumption.

The gross profit for the year of account amounted to NIS 1,389 million, compared with NIS 507 million last year.

The margin on refining activities ($ per ton):

	January–March	April–June	July–September	October–December	January–December
2004	25.0	35.7	46.8	47.0	38.1
2003	23.0	17.5	16.5	21.6	19.7

In the year of account, there was an increase in manufacturing expenses deriving mainly from an increase in salaries along with an increase in maintenance and depreciation expenses.

There was an increase in selling, administrative and general expenses due to permit fees to the State recorded by ORL.

In 2004, the financing expenses amounted to NIS 159 million, compared with financing income of NIS 83 million in 2003. The high fluctuations in the financing income/expenses between the years is explained mainly by the effect of the real devaluation / upward revaluation of the shekel vis-à-vis the dollar.

In the year of account, ORL raised NIS 898 million through a private issuance of debentures.

SOURCES OF FINANCING OF THE CORPORATION AND THE HEADQUARTERS COMPANIES

As at December 31, 2004, the total financial liabilities of the Corporation and its wholly-owned and controlled headquarters companies (hereinafter – “the Headquarters Companies”), amounted to NIS 2,481 million.

As at December 31, 2004, the Corporation and the Headquarters Companies had investments in liquid assets of NIS 840 million, invested, primarily, in treasury bills and corporate debentures in CPI-linked and unlinked channels, short-term dollar deposits and in medium-term dollar debentures.

During the period of the report, the Corporation received a long-term loan in the amount of $60 million, which it used to finance acquisition of ZIM’s shares from the State.

During the year of the report, the Corporation issued non-marketable debentures to institutional investors, in the amount of NIS 200 million, which are repayable in one lump-sum payment in 2009. This liability was swapped from a shekel CPI-linked liability to a dollar liability.

In the current year, the Corporation and the Headquarters Companies repaid current maturities of long-term loans in the amount of NIS 222 million.

During the year of the report, NIS 49 million par value of debentures (Series 1) were converted into 69,653 ordinary shares of the Corporation and, correspondingly, the Corporation’s liabilities were reduced by NIS 50 million.

Subsequent to the balance sheet date, the Corporation issued another 219,772 shares as a result of conversion of additional debentures and as a result of the exercise of options for shares. The Corporation’s liabilities were reduced by a further NIS 46.8 million owing to conversion of the debentures, and the Corporation received NIS 115 million from exercise of the options.

Subsequent to the balance sheet date, the Corporation recycled credit received for financing acquisition of shares of Israel Chemicals Ltd., in the amount of $28 million, in respect of credit repaid in 2004, and the repayment dates of the current maturities for 2005, in the amount of $37.5 million, were extended. The repayment dates of the total credit recycled, in the amount of $65.5 million, were extended such that half of the credit is scheduled for repayment on December 31, 2010, and the other half is scheduled for repayment in quarterly payments beginning on March 31, 2007.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT

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 stemming primarily 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 that 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 at December 31, 2004, the amount of hedged loans is $135 million, which bears maximum interest of 5.5% and minimum interest of 2.63%. 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, 2004, 42% of the financial assets were invested in shekel investments, mainly, government debentures, about 20% in index-linked investments, mainly government debentures, about 27% in short-term dollar deposits and corporate bonds in Israel and overseas, and about 10% 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 Section "Additional Details on the Corporation".

Linked Balance Sheet

As at December 31, 2004

In Millions of Shekels

	In dollars or linked thereto	Other foreign currency or linked thereto	Linked to the CPI	Unlinked	Other	Total
Current assets	3,401	1,492	250	853	2,470	8,466
Non-current assets	42	96	57	29	13,294	13,518
Current liabilities	3,530	1,669	42	1,223	442	6,906
Long-term liabilities	5,688	786	293	676	1,520	8,963

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 [a]

(b) As at December 31, 2004

	)ne) Par value in NIS millions		wo) Fair value in NIS millions	
	Long	Short	Long	Short
Over One Year				
Hedging changes in LIBOR interest rates on dollar loans				
CAP options – recognized for accounting purposes	2,395		13.1	
FLOOR options – recognized for accounting purposes	1,835		(13.6)	
CAP options – not recognized for accounting purposes	246			
FLOOR options – not recognized for accounting purposes	246		(6.0)	
IRS transactions – recognized for accounting purposes	228		(0.6)	
SWAP transactions – not recognized for accounting purposes	431		9.2	
Hedging changes in exchange rate and interest rate swaps on loans				
Recognized for accounting purposes SWAP of dollar liability with variable interest from index-linked liability with fixed interest	194		14.2	
Hedging changes in exchange rates on cash flows				
Dollar/Euro				
Call options – not recognized for accounting purposes		8		0.2
Put options – not recognized for accounting purposes		9		(0.3)
British Pound/Euro				
Call options – not recognized for accounting purposes		12		(0.1)
Up to One Year				
Hedging changes in exchange rates on cash flows				
Dollar/Euro				
Futures contract – recognized for accounting purposes	49		0.6	
Futures contract – not recognized for accounting purposes	2	52	0.3	(2.7)
Call options – recognized for accounting purposes		471		2.4
Put options – recognized for accounting purposes		492		(28.5)
Dollar/Canadian Dollar				
Futures contract – not recognized for accounting purposes	115		10.5	
Call options – not recognized for accounting purposes	43		0.6	

	(Three) Par value in NIS millions		(Four) Fair value in NIS millions	
	Long	**Short**	**Long**	**Short**
British Pound/Euro				
Futures contract – not recognized for accounting purposes	1	79		(2.7)
Futures contract – not recognized for accounting purposes		129		(1.7)
Dollar/ Yen				
Futures contract – recognized for accounting purposes		27		(0.5)
Futures contract – not recognized for accounting purposes	6		0.3	
Call options – recognized for accounting purposes		66		0.2
Put options – not recognized for accounting purposes		66		(1.4)
Dollar/British Pound				
Futures contract – recognized for accounting purposes	17		1.3	
Call options – recognized for accounting purposes		9		
Put options – not recognized for accounting purposes		9		(0.4)
Futures contract – not recognized for accounting purposes				
Shekel/Dollar	26		(0.1)	
Dollar/Hong Kong Dollar	211		(2.2)	
Dollar/Singapore Dollar	21		0.4	
Dollar/Korean Wann	20		0.4	
Dollar/Juan	40		0.6	
Hedging against changes in the exchange rates on existing liabilities – not recognized for accounting purposes				
Dollar/Rand – future contract	75		7.7	
SWAP of dollar liability with variable interest from euro liability with fixed interest	55		6.4	
Futures contract – not recognized for accounting purposes				
To fix the fuel price	42		(3.8)	

Risks applicable to investee companies

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

ICL

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

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

ICL has a number of subsidiaries overseas which operate independently–autonomously. The measurement currencies of these companies are the 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 various financial instruments, including derivatives.

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 decides whether to hedge this exposure and at what level based on the market conditions and the forecast of exchange rate's development.

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 the 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 that are denominated in local currency. In Israel, they are also affected by the increase in the Index. The Israeli ICL companies have funded amounts to partially cover their liabilities. These funded amounts are shekel denominated and are affected by the profits of the funds in which they are invested. 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 that relate, respectively, to the local currency of the foreign autonomous companies (except for that stated above). The difference between the assets and liabilities in the various currencies generates risk. ICL's policy is to hedge against most of the risk by means of financial instruments, including 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, including derivatives.

As at December 31, 2004, ICL has "cap" options to secure a ceiling of LIBOR interest rates at 3%-4% that cover a theoretical amount of $130 million. ICL also purchased and wrote interest options that serve to fix the LIBOR interest rate within the range of 2% to 6% (collar). The theoretical amount covered by such collars is $326 million. Part of these transactions are combined with options according to which, if the variable interest, based on LIBOR, reaches 6.1% to 7%, the transactions will be null and void in that period.

Subsequent to the balance sheet date, ICL purchased options (collar) that serve to fix the Libor interest rate in the range of 3% to 4.89%, which cover a cover a theoretical amount of $50 million.

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 expectations in the various markets.

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

ZIM

ZIM is engaged in the provision of global shipping services, where most of its revenues are denominated in U.S. dollars and some of its expenses are in different currencies. ZIM's functional currency is, then, the dollar. Based on the nature of its activities, ZIM is exposed to market risks that relate to changes in the exchange rates of the currencies of the various countries in which it has activities, 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 80%. ZIM summarizes the exposure to interest risks on a semi-annual basis and partially hedges the loans bearing variable interest by means of SWAP transactions and options.

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, and regarding which ZIM's Management has decided to hedge. 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 in the area of refining crude oil, manufacture of fuel products and sale 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.

ORL makes use of financial instruments, including derivative financial instruments, in order to reduce the exposure to the risks described above. The transactions are intended secure existing assets and liabilities. 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's exposure begins at the time the price of the raw materials it acquires is set, and runs up to the time the selling prices for the products produced therefrom are determined. Most of the hedging against exposure to price changes is effected through use of derivatives. Pursuant to its policy, ORL does not hedge its base inventory of raw materials, which is estimated at 600 thousand metric tons.

ORL operates in the market for fuel and its related products which is dollar-denominated and, therefore, a large part of its assets and liabilities are in dollars or linked thereto, whereas its financial statements are prepared in shekels. 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 to 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. Pursuant to ORL's policy, 60% of ORL's exposure is fully hedged and the remaining 40% is hedged in accordance with dynamic hedging tables that derive from market forecasts of changes in the currency rates.

ORL has dollar loans and liabilities bearing variable interest based on LIBOR. Changes in the variable interest rate are a source of economic exposure. ORL hedges part of this exposure through SWAP transactions.

Part of ORL's long-term liabilities and a significant portion of its operating and maintenance expenses are linked to the Consumer Price Index. Since the rate of inflation in Israel is also impacted by a change in the dollar exchange rate, and since ORL has a "natural hedge", as explained above, which protects it from exposure to the dollar, and in light of the decline in the rate of inflation and the forecasts predicting a continued low rate of inflation, ORL has 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.

ORL sells to its local and foreign customers on credit and, therefore, there is exposure to non-compliance on the part of the customers with the agreed credit terms. In order to protect against the risk of selling on credit, ORL receives collaterals in cases it considers to be risky.

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 acquisition of machinery and equipment.

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 in index-linked shekels, whereas Tower prepares its financial statements in dollars. Tower does not hedge against these exposures.

The ORL Concession

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

On December 2, 2002, an arrangement was signed between ORL, the Government and 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 that 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, and 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.

Upon expiration of the original concession and in accordance with the arrangement, ORL began paying license fees under the arrangement. ORL recorded a provision in the amount of NIS 56 million in respect of 2004.

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 Israel 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 date of the arrangement (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 2003, 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). The Minister of the Interior gave notice that he intends to accept the Committee's recommendations. ORL filed a petition with the Supreme Court sitting as the High Court of Justice against this decision of the Minister of the Interior and requested interim orders that will prevent the taking of any action that is intended to implement or advance implementation of the Committee's recommendations.

The State, for its part, requested an extension of time to submit its position regarding the petition and the interim orders, of up to 45 days after entry of the new Minister of the Interior into his position, in order to allow him time to study the subject matter of the petition. Up to the publication date of the report, the State's response has not yet been submitted. Upon inclusion of lands belonging to ORL within the boundaries of any local authority, it is expected that ORL will begin paying Municipal Tax for the Haifa refinery as well. In the period of the report, ORL received a charge for Municipal Tax relating to part of 2004 and 2005. Pursuant to a legal opinion received by ORL, as at the signing date of the financial statements ORL was not subject to an obligation to pay Municipal Tax in accordance with the charge notification it received. In 2003, 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 that 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 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 Israel Corporation (regarding this appendix, see the expanded discussion below).

On June 4, 2003, 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 Director of the Government Companies Authority, ORL, 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 that will prevent realization of the arrangement up to the time of the decision on the petition.

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 Israel Corporation in ORL and to prepare a new agreement or revisions to the arrangement.

On January 19, 2004, 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 March 28, 2004, May 5, 2004 and July 12, 2004, the Government requested and received additional extensions from the Court for provision of its position regarding the petition.

On August 9, 2004, the Government submitted a notice to the Court wherein was stated, among other things, that on July 29, 2004, the Ministerial Committee for Society and Economic Matters (Social and Economic Cabinet) made a decision determining the manner in which the split up of ORL and its privatization are to be executed, which imposes on the Accountant General the responsibility to amend "Appendix C of the Agreement", in accordance with the principles detailed in the decision (for the sake of good order it is noted that the "Agreement" is the arrangement signed on December 2, 2002, between Israel Corporation and ORL and the Government, as detailed at the beginning of this note, whereas "Appendix C of the Agreement" was signed between Israel Corporation and the Government relating to the relationship between the shareholders of ORL) (for detail regarding the decision, see below).

The Petitioner received permission from the Court and, on November 14, 2004, it submitted an amended petition based on, among other things, the State's aforesaid notification.

The responses of the respondents to the amended petition have not yet been submitted (the State's response is scheduled to be submitted at the end of March 2005, whereas regarding the responses of ORL and Israeli Corporation, the Court determined that they shall be submitted 14 days after submission of the State's response).

In Appendix C to the arrangement, dated December 2, 2002, regarding the matter of ORL's concession, an appendix which as noted was signed by the Government and Israel Corporation, 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 Israel Corporation's shares in ORL or, in the case of a split-up of ORL, optional acquisition by Israel Corporation of one of the split-up two refineries. In this case, Israel Corporation will pay to the Government or receive therefrom, the difference between the relative value of Israel Corporation's share in ORL (26%) and the value of the split-up refinery that it shall choose, based on the valuations performed pursuant to the arrangement.

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

In June 2003, the two aggregate valuations were submitted. One from an appraiser on behalf of 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, Israel Corporation notified the Government that in light of the fact that the negotiations with the Government regarding participation of 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 Israel Corporation shall sell to the Government or to a party which the Government shall instruct, all ORL shares owned by 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, 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 that shall not exceed two years from June 6, 2003.

As a result of the recommendations of the inter-office team appointed by the Government, the Committee of Ministers for Social and Economic Matters made the following decision on July 29, 2004 (hereinafter – "Committee of Ministers' Decision Dated July 29, 2004"): "Further to Government Decisions No. 126, dated August 22, 1999, No. 2796, dated November 25, 2002, and No. 787, dated September 15, 2003, the decision of the Committee of Ministers for Privatization Matters MH/2, dated October 20, 1999, the agreement signed between the Government and Israel Corporation Ltd. (hereinafter – "Israel Corporation") and Oil Refineries Ltd. (hereinafter – "ORL") dated December 2, 2002, which has not yet received all the required approvals (hereinafter – "the Agreement"), as follows:

1. To execute the split-up and privatization of the refineries during the years 2004–2005, in accordance with the outline detailed below:

    1.1 In the first stage, the refinery in Ashdod will be sold as activities, or in a private sale as a subsidiary or a separate company with an ownership structure identical to the ownership of ORL, and immediately thereafter a public issuance of ORL will be made.

    1.2 The refinery in Ashdod will be sold as a "going concern". In the framework of the process of sale of the refinery in Ashdod the purchaser will undertake to operate the refinery for a period of not less than 10 years from the acquisition date.

    1.3 If necessary, principles for reciprocal relationships will be formulated during the split-up process that will apply between the refineries, including with respect to sale of intermediate products and feedstock materials between them, and between them and the petrochemicals industry.

2. To impose on the Accountant General in the Ministry of Finance the responsibility of amending Appendix C to the Agreement in the framework of a new agreement with Israel Corporation, which will be approved in accordance with Section 16 of the Agreement, such that Sections 3, 4, and 5 of Appendix C to the Agreement will be amended and superseded pursuant to the principles attached as Appendix A to the Government's decision, and the rest of the Sections will remain unchanged, all of this up to October 15, 2004. In the framework of amendment of Appendix C, the following principles, among others, will be expressed:

    2.1 Israel Corporation will sell together with the Government all the holdings of the refineries.

    2.2 The accountings with Israel Corporation shall be made after completion of privatization of ORL, as will be detailed in the new agreement that amends Appendix C to the Agreement.

    2.3 The consideration the Corporation is to receive for its holdings in ORL will be between NIS 480 million and NIS 570 million. The amounts will bear interest and linkage differences up to December 31, 2003, and from this date the consideration will be linked to the rate of return on ORL's capital. The consideration is subject to certain adjustments.

3. To impose on the Supervisor of the Government Companies Authority to submit to the Ministerial Committee for Privatization, no later than October 15, 2004, a proposal for split-up and privatization of the refineries on the basis of the outline as stated in Section 1, above. The process of split-up and sale of the refineries will be conducted and executed by the Government Companies Authority as is customary, including by means of mechanisms it determines for purposes of execution of the split-up and advancement of the privatization. In addition, provisions and limitations were determined in the privatization decision regarding ownership of the split-up refineries, among other things, as detailed in notification of the Supervisor of Restrictive Business Practices, as stated in Section 5, below. Commencing from the date that will be determined in the privatization decision, ORL will move to operating based on a separate optimization model for the two refineries, as will be detailed therein.

4. In the framework of the split-up and privatization process, issues relating to ORL employees will be handled, and to the extent necessary this will be reflected in the privatization decision.

5. To record the notification of the Supervisor of Restrictive Business Practices regarding his position with respect to matters within the scope of his responsibility in the area of regulation of the fuel industry, which are attached as Appendix B to the Government's decision. In addition, to record the notification of the Minister of National Infrastructures regarding his intention to enact the Fuel Industry Law, which will deal with, among other things, arrangement of the regulation in various sectors of the fuel industry.

6. To impose on the Minister of Finance and the Minister of National Infrastructures to amend the Order for Supervision of Prices of Goods and Services, 1992, no later than October 15, 2004, in such a manner that after the split-up and privatization of the refinery in Ashdod, the supervision of refined oil products at the refinery gate will be removed, except for supervision of the prices of refined oil products where more than 50% of their total consumption in the local market is sold by one of the refineries and, at the same time, less than 15% of their total consumption in the local market is sold by the other refinery. After removal of the supervision as stated, re-imposition of supervision of the price of any refined oil product at the refinery gate will be examined in light of the competitive conditions existing in the refining sector in the fuel industry, and in accordance with all law.

7. After sale of the refinery in Ashdod, in principle there is nothing preventing operating of a refinery in the area of production of electricity and desalination of water, in accordance with and subject to all law.

8. If Israel Corporation does not agree with the principles stated in Section 2 – to cancel the agreement, and to take unilateral steps available to the Government in connection with split-up and privatization, among other things in light of the Government's position regarding ownership of ownership of ORL's in the area of the concession.

Regarding this matter, see above also the report regarding the petition filed against the agreement dated December 2, 2002.

On December 26, 2004, the Committee of Ministers for Privatization Matters made a privatization decision relating to ORL (hereinafter – "the Privatization Decision"). The Privatization Decision provided, among other things:

"Further to Government Decision No. 126, dated August 22, 1999, the decision of the Committee of Ministers for Privatization Matters MH/2, dated October 20, 1999, the Government's Decision No. 2796, dated November 25, 2002, the agreement signed between the Government and Oil Refineries Ltd. (hereinafter – "ORL") and Israel Corporation Ltd. (hereinafter – "Israel Corporation") dated December 2, 2002, including Appendix C thereof (which is to be amended in accordance with and subject to the decision of the Social and Economic Cabinet) subject to receipt of all the required approvals (hereinafter – "the Agreement"), to the Government's Decision No. 787, dated September 15, 2003, the decision of the Ministerial Committee for Society and Economic Matters (Social and Economic Cabinet) No. HC/107 dated July 29, 2004 (hereinafter, above and below – "the Social and Economic Cabinet's Decision") – to privatize ORL as detailed below:

1. <u>Split-Up</u>

ORL shall be split into two companies, such that a subsidiary of ORL shall be established that will be called "ORL Subsidiary – Ashdod Ltd.", in accordance with the conditions detailed in the document attached as Appendix A to this Decision (hereinafter – "ORL Ashdod"), in such a manner that agreements will be signed pursuant to which assets, rights, employees and liabilities as will be decided, which relate to the activities of the oil refinery in Ashdod and as will be determined in accordance with Section 12(D), shall be transferred to ORL Ashdod (hereinafter – "the Split -Up").

The above-mentioned agreements shall not be executed and assets, rights, liabilities and employees relating to the activities of the oil refinery in Ashdod shall not be transferred except subject to and on the date of conclusion of the sale of ORL Ashdod as detailed below.

2. <u>Sale of ORL Ashdod</u>

2.1 After execution of the split-up, all the shares of ORL Ashdod, including the share held by the State, shall be sold in a private sale, as a single unit, to an investor and/or group of investors from Israel and/or from overseas (hereinafter – "the Private Sale").

2.2 The Private Sale shall be executed on, among others, the following conditions:

A. The government companies (as will be defined in the sale procedure) shall not be permitted to participate in the Private Sale Procedure, directly or indirectly, alone or together with others, all as will be determined in the Private Sale Procedure.

B. The purchaser of ORL Ashdod shall declare that it acquires ORL Ashdod as a "going concern" and shall undertake to act based on its holdings in ORL Ashdod such that the activities of ORL Ashdod shall continue for a period of at least ten years from the sale date.

C. The sale process shall be administered by the Government Companies Authority (hereinafter – "the Authority"), as is customary in other private sale processes of State shares in government companies conducted by the Authority, and shall be executed by ORL and the Authority, in accordance with principles to be determined by the Authority and with its approval, based on, among other things, valuations on behalf of the Authority.

3. Sale of ORL

3.1 After completion of privatization of ORL Ashdod pursuant to Section 2, above, and prior to the issuance as described in Section 3.2, below, the Authority shall report to the Committee of Ministers with respect to the progress of the privatization process.

3.2 Immediately after completion of the privatization of ORL Ashdod pursuant to Section 2, above, all of the State's holdings in ORL and all of the Israel Corporation's holdings in ORL shall be sold, by means of a tender/tenders to the public, separately or together with fundraisings for ORL, through the issuance of securities to the public pursuant to a prospectus on the Tel-Aviv Stock Exchange (hereinafter – "the Issuances") and/or through a private sale of packages of shares in and outside of Israel. The Issuances shall be made in the scope, allocation, and on the dates to be determined by the Authority based on, among other things, the situation in the capital market.

3.3 The Issuances shall include shares and/or convertible securities, as will be determined by the Authority.

3.4 The Committee of Ministers provides that, under the circumstances of the matter, application of separate processes for handling a request to allow publication of a prospectus in accordance with Section 12(D)(1) of the Securities Law, 1968, is important to advancement of privatization of ORL.

3.5 The process of sale of ORL as stated above conducted by the Authority, based on, among other things, valuations on behalf of the Authority."

The Decision also set forth provisions in connection ORL employees in the Privatization Process, the fuel administration and regulation, essential interests of the State and guidelines for the Authority's activities in execution of the Privatization.

In the assessment of ORL, the privatization process of ORL by means of a split-up, if executed, 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 and the results of its operations. The Management of Israel Corporation adopts ORL's evaluation.

Further to the decision of Committee of Ministers dated July 29, 2004, in the framework of which amendment of certain provisions in the original Appendix C to the ORL agreement was requested (which as stated is an appendix that was signed between the Government and Israel Corporation only regarding the matter of the a split-up and privatization of ORL and which covered their legal relationships as shareholders in ORL) and the continued negotiations carried on between Israel Corporation and the Government, Israel Corporation gave notice to the Government on January 1, 2005 (through the Ministry of Finance) that it consents to amendment of the original Appendix C to the ORL agreement based on the principles, as they were determined in the Committee of Ministers' Decision Dated July 29, 2004 (hereinafter – "the Amended Appendix C"). In this connection, Israel Corporation gave notice in an Immediate Report dated January 10, 2005, that shortly after the signing of the Amended Appendix C it will send out another Immediate Report with respect thereto.

DISCLOSURE REGARDING THE INTERNAL AUDITOR OF THE REPORTING COMPANY

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

Set forth below are details regarding the Internal Auditor:

Name of the Auditor: Michael Blumenthal.

Date of Commencement of his Service: January 14, 2003.

Qualifications: Bachelor's degree in Accounting and Economics, Certified Public Accountant, Master's degree in Law (Certified Lawyer), partner in Fahn Kanne & Co.

Type of Undertaking: Provides internal audit services on a behalf of an outside party to Israel Corporation – in the framework of the CPA firm Fahn Kanne & Co.

Scope of the Auditor's Employment: Less than ¼ of a full-time position.

The Considerations in Determining the Audit Plan: The audit plan is based on examination of the Corporation's main activities on the basis of a list of items submitted to the Corporation. The Auditor consults with the Corporation's Management and the Audit Committee regarding material matters requiring examination with respect to which exposure exists.

Audit of Investee companies: The investee companies have separate internal auditors. The internal auditor summarizes for the audit committee the main findings revealed during the audits performed in subsidiaries. In addition, regarding sensitive matters, the Internal Auditor of Israel Corporation accompanies the internal auditors of the subsidiaries and updates the Audit Committee.

Professional Standards: The Internal Auditor performs his work based on the generally accepted professional standards, including the professional standards of the IIA and the Institute of Internal Auditors in Israel, as well as relevant standards of the Institute of Certified Public Accountants in Israel.

Appointed Party within the Organization: The party responsible for the Internal Auditor is the Chairman of the Audit Committee of the Board of Directors (hereinafter – "the Audit Committee").

Discussion Dates: During 2004, 3 meetings of the Audit Committee were held (December 21, August 15, March 25). The discussions were held after submission of preliminary draft reports with the Corporation's Management as well as delivery of the reports for perusal of the members of the Audit Committee prior to holding the discussions.

Reasonableness of the Activities: The Corporation is a holding company having limited headquarters' activities. In the Corporation's opinion, the scope of the Internal Auditors' activities are reasonable subject to the fact that the activities are carried on in the framework of the subsidiaries that have independent auditors. The Auditor has been given free access to all of the organization's data and information systems.

CRITICAL ACCOUNTING ESTIMATES

In preparation of financial statements in accordance with generally accepted accounting principles, the managements of the Group companies are required to make use of estimates that affect the assets and liabilities in the balance sheet, contingent liabilities and the results of the companies' operations in the period of the report. The managements of the companies base the estimates on the past experience and on additional factors that they believe are relevant under the circumstances. These estimates are critical since a change in the estimates could have an impact on the financial statements, as follows:

Pension Liabilities

In calculation of the pension liabilities, the Group companies use different estimates. The estimates include, among other things, the interest rate for purposes of discounting the company's pension liability, the expected long-term yield in respect of the pension assets, a forecast of the growth in wages over the long run and a forecast of the life expectancy of the group of pension recipients. Estimate of the interest rate for purposes of discounting the pension liability of some of the Group companies is based on the long-term debenture yield rate, which changes based on market terms. As a result, the interest rate for discounting changes and, in turn, the pension liability also changes. The estimate of the long-term rate of return on the pension assets is based on the expected rate of return over time on the assets' portfolio in accordance with the composition of the assets in the pension fund. Changes in the capital market or in the composition of the pension fund's assets' portfolio could give rise to a change in the estimate of the rate of return on pension fund's assets and, accordingly, a change in the pension fund.

Estimate of the increase in wages is based on forecasts made by the companies based on their prior experience and on the employment agreements in effect. This estimate may not ultimately correspond with the actual increase in wages.

Estimate of the life expectancy is based on actuarial studies published in the different countries. In practice, these studies are updated every few years and, as a result, the life expectancy estimate may also be updated.

Environmental Protection

Some of the Group companies are exposed during the normal course of their business to liabilities and obligations due to the environmental protection laws together with other related laws. The Group companies invest substantial amounts in order to comply with the legal requirements. The companies record a liability in their books where such liability is probable and is capable of being estimated. Estimate of the liability is based mainly on past experience and on opinions of legal advisors and other experts. As noted in Note 19, a number of legal claims have been filed against the companies, the results of which may have an effect on the Corporation's results.

Standard 15 – Impairment of Assets

Pursuant to Standard 15, upon the existence of signs of a decline in value, the companies examine whether the amount at which an asset is presented in the companies' books is recoverable from the cash flows expected from such asset. The asset's recoverable amount is determined based on the higher of the net selling price of the asset or the present value of the cash flows expected from the continued use of the asset including the cash flows expected upon withdrawal of the asset from service and the sale thereof in the future.

The circumstances indicating the possibility of a decline in value could be a change in the Environmental Protection Regulations, a change in the interest rate for discounting, physical damage to the facilities, discontinuance of the activities of the facilities, a change in the business environment, etc.

In calculation of the decline in value, use is made of future cash flow estimates. A forecast of the activities of a facility in the short-run and in the long-run and the discount rate also reflects the risk of the industry to which it relates. A change in the actual results versus the estimate could have an effect on the need for the reduction as stated and, in turn, on the company's assets and its results of operations.

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 Corporation'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, Yochi Dvir, have the accounting and financial expertise as stated in the directive.

INTERNAL ENFORCEMENT PLANS

In the framework of the Group, the Corporation maintains internal enforcement systems in order to verify compliance with the relevant provisions of law. It was clarified to the managers of the companies and the holders of the appropriate positions in the Group companies, that as part of their management responsibility they must confirm compliance with the provisions of law with respect to the company that they serve. These matters are also examined on a regular basis by the managements and the boards of directors of the different companies, seminar days are held for the appropriate managers and employees in these areas and application of the provisions of law are checked on a regular basis, etc.

EVENTS OCCURRING DURING THE PERIOD OF THE REPORT AND THEREAFTER

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

B. In March 2004, Mr. Ohad Marani commenced serving the Chairman of the ORL's Board of Directors.

C. In April 2004, Ms. Anat Keynan, ceased serving as a director of the Corporation.

D. In August 2004, Ms. Yocheved Dvir was appointed as an external director of the Corporation.

E. In November 2004, Mr. Yoram Sebba, ceased serving as the CEO of ZIM and was appointed as Deputy Chairman of ZIM's Board of Directors. In his place, Mr. Doron Goder was appointed.

F. In January 2005, Mr. Gilad Shavit was appointed as Deputy CEO of the Corporation.

G. In February 2005, Mr. Carmel Vernia, ceased serving as the Chairman of the Board of Directors and CEO of Tower. Mr. Udi Hilman was appointed as acting CEO of Tower.

H. In February 2005, Mr. Udi Angel, ceased serving as the Chairman of ZIM's Board of Directors. In his place, Mr. Idan Ofer was appointed.

I. On June 29, 2004, the Law for Amendment of the Income Tax Ordinance (No. 140 and Temporary Order), 2004 (hereinafter – "the Amendment") was passed by the Knesset. The Amendment provides for gradual reduction of the tax rates for companies, from the rate of 36% to the rate of 30%, in the following manner: in the 2004 tax year tax will apply at the rate of 35%, in the 2005 tax year tax will apply at the rate of 34%, in the 2006 tax year tax will apply at the rate of 32%, and in the 2007 tax year and thereafter tax will apply at the rate of 30%.

The current taxes and balances of deferred taxes as at December 31, 2004, are computed in accordance with the new tax rates as determined in the Amendment. The effect of the change in the consolidated financial statements in the period of the report is a decrease of tax expenses of NIS 161 million. The impact on the net income amounts to NIS 120 million.

J. On August 30, 2004, and on November 2, 2004 and November 4, 2004 the Corporation's Audit Committee and the Board of Directors decided to approve a transaction of ZIM regarding acquisition by ZIM of additional ships, a transaction that is related to the controlling shareholders in the Corporation. The Corporation's General Meeting approved the transaction on December 9, 2004. The subject of the transaction is the acquisition by ZIM of 12 ships, including 8 container ships having a capacity of 4,250 containers each, which are scheduled to be delivered to ZIM during 2006 and 2007 and 4 container ships having a capacity of 6,350 containers each, which are scheduled to be delivered to ZIM during 2008 and 2009. 2 out of the 8 ships having a capacity of 4,250 containers were acquired by ZIM by means of assignment of the rights and obligations with respect to acquisition of the ships of a foreign company controlled by a foreign trust related to the family of Mr. Sami Ofer (hereinafter – "Zodiac") based on sale's contracts signed between it and Polaris, a subsidiary of a large German company (hereinafter – "Polaris"), 4 out of the 8 ships having a capacity of 4,250 containers will be acquired by means of assignment of the rights and obligations of Zodiac under sale's contracts signed between it and Polaris, by 4 joint foreign companies (in equal shares) of ZIM and Ofer Shipping Ltd. (a company controlled by the Corporation's controlling shareholders (hereinafter – "the Joint Venture"). The ships will be acquired at a price of $54.21 million per ship, this being at the same price and on the same terms (back to back) that the ships were acquired.

Out of the 8 ships having a capacity of 4,250 containers, ZIM will lease 2 ships from Zodiac for a period of 10 years, for a lease fee of $23,000 per day per ship. ZIM will also lease 4 ships that are to be acquired by the Joint Transaction for a period of 10 years, for a lease fee of $23,000 per day per ship. Out of the 4 ships having a capacity of 6,350 containers, ZIM will purchase 2 ships from companies in the Zodiac Group, one for a price of $74.3 million and the other for a price of $74.1 million. Sale of the ships will be at the same price and on the same terms (back to back) that the companies in the Zodiac Group acquired the said ships. 2 of the 4 ships having a capacity of 6,350 containers will be leased by ZIM from companies in the Zodiac Group for a period of 10 years, for a lease fee of $31,500 per day per ship. The agreements covering assignment of the rights and obligations signed between ZIM and Zodiac, and between Zodiac and the Joint Venture were exchanged, effective as of December 29, 2004, with direct sale's contracts between Polaris and ZIM and between Polaris and the Joint Venture.

The direct undertaking was executed at the request of Polaris. Exchange of the aforementioned assignment contracts with direct sale's contracts with Polaris in no way imposes on ZIM or on the Joint Venture additional costs and, in addition, the said exchange does not change the payment terms determined in respect of the ships or the delivery dates of the ships or the arrangements reached between the parties relating to letters of credit, payments, guarantees and letters of indemnification as they were at the time of approval of the transaction by the Corporation's General Meeting.

K. On March 16, 2005, the Corporation's Board of Directors decided to distribute a cash dividend in the amount of NIS 220 million. The dividend is scheduled for distribution on April 14, 2005.

L. On March 28, 2005, the Corporation's Board of Directors approved a compensation plan for employees and officers by means of an issuance of shares (hereinafter – "the Plan"). Pursuant to the Plan, 1,863 shares were issued to the Corporation's CEO and 2,428 shares were issued to employees and officers of the Corporation and the subsidiaries. Based on the approval issued by the Assessing Officer, the shares issued pursuant to the plan are subject to the provisions of Section 102 of the Income Tax Ordinance, under the ordinary income track providing for issuance of shares through a trustee. The shares are restricted in the hands of the trustee until December 31, 2006.

COMMUNITY INVOLVEMENT OF THE ISRAEL CORPORATION AND ITS SUBSIDIARIES

The total contributions made by the Group during the year of account amounted to NIS 9 million of which about NIS 1 million constitutes the Group's direct support of care centers.

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 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 at risk between the ages of 6 and 13. 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, 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 current year, wherein the number of care centers adopted rose gradually, the expenses with respect to the care centers reached NIS 1 million, directly, as well as thousands of volunteer hours by the employees.

In 2004, the boards of directors of the Corporation, ICL and ZIM approved a contribution to construction of a permanent house for autistic children and adults in Jerusalem, in the amount of NIS 1.5 million and, in addition, the Group donated assistance and support on the National Contribution Day to "ALUT", in the amount of NIS 1 million.

Additional support of ICL, in the amount of NIS 0.5 million, in 2004, went to Soroka Hospital in the Negev. 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, the Group companies convert 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.

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. ICL committed to its finance activities in the amount of $50 thousand per year for five additional years. ICL was an initiator in bringing a YATED branch to the South, for children with Down's syndrome and committed to its finance activities in the amount of $20 thousand per year for three 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, YATED and various other volunteer groups.

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 the following matters:

Without qualifying our above opinion, we direct attention to:

1. That stated in Note 19D(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.

2. That stated in Note 19B(2)(a)(7) and Note 19B(3)(a)(1) to the financial statements, regarding lawsuits filed against a subsidiary and an affiliated company (hereinafter – "the Investee Companies") alleging bodily injury and property damage caused to the plaintiffs deriving from pollution of the Kishon Stream, which the plaintiffs contend the Investee Companies had a part in. In the estimation of the Investee Companies, due to the early stage of the proceedings, it is not possible to assess the chances of the claims or their monetary parameters and, therefore, no provisions were included in their financial statements in respect of the said claims.

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, 2005

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, 2004 and 2003, 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, 2004. 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 18.1% and 45.1% of the total consolidated assets as at December 31, 2004 and 2003, respectively, and whose revenues constitute 18.4%, 52.2% and 89.2% of the consolidated revenues for the years ended December 31, 2004, 2003 and 2002, respectively. In addition, we did not audit the financial statements of affiliated companies, the investment in which totaled NIS 745 million and NIS 1,176 million, as at December 31, 2004 and 2003, respectively, and the Corporation's share in the results of these affiliated companies was a loss of NIS 2 million, earnings of NIS 104 million and a loss of NIS 145 million, for the years ended December 31, 2004, 2003 and 2002, 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.

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 Company's Board of Directors and by its Management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a fair basis for our opinion.

In our opinion, based on our audits and on the reports of other auditors, as stated above, the above-mentioned financial statements present fairly, in 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, 2004 and 2003, 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, 2004. Furthermore, in our opinion, these statements have been prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements), 1993.

As explained in Note 1C, the financial statements at dates and for reporting periods subsequent to December 31, 2003, are stated in reported amounts, in accordance with Accounting Standards of the Israeli Accounting Standards Board. The financial statements at dates and for reporting periods that ended up to the aforementioned date are stated in values that were adjusted to that date based on 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:

1. That stated in Note 19D(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.

2. That stated in Note 19B(2)(a)(7) and Note 19B(3)(a)(1) to the financial statements, regarding lawsuits filed against a subsidiary and an affiliated company (hereinafter – "the Investee Companies") alleging bodily injury and property damage caused to the plaintiffs deriving from pollution of the Kishon Stream, which the plaintiffs contend the Investee Companies had a part in. In the estimation of the Investee Companies, due to the early stage of the proceedings, it is not possible to assess the chances of the claims or their monetary parameters and, therefore, no provisions were included in their financial statements in respect of the said claims.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 28, 2005

Consolidated Balance Sheets as at December 31

	Note	2004 Reported amounts (1) 2004 NIS millions	*2003 Adjusted amounts (2) 2003 NIS millions
Current assets			
Cash and cash equivalents		**1,217**	139
Marketable securities	2	**820**	697
Short-term loans and deposits	3	**675**	276
Trade receivables	4	**2,886**	1,193
Other receivables	5	**635**	691
Inventories	6	**2,233**	2,353
		8,466	5,349
Long-term investments, loans and receivables			
Investments in affiliated companies	7	**880**	1,200
Investments in other companies	8	**17**	246
Deposits, loans and long-term receivables	9	**177**	152
Deferred taxes	27	**128**	107
Inventories	6	**135**	115
		1,337	1,820
Fixed assets	10	**11,410**	7,515
Other assets and deferred expenses	11	**771**	830
Assets relating to discontinued operations	12	**74**	415
		22,058	15,929

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

March 28, 2005

(1) See Note 1C.
(2) Adjusted amounts for the effect of inflation in terms of NIS of December 2003.
* Reclassified, mainly due to discontinued operations – see Note 12.

The notes are an integral part of the financial statements.

	Note	2004 Reported amounts (1) 2004 NIS millions	*2003 Adjusted amounts (2) 2003 NIS millions
Current liabilities			
Short-term credit from banks and others	13	**2,991**	2,657
Trade payables	14	**1,704**	1,089
Other payables	15	**2,211**	1,227
		6,906	4,973
Long-term liabilities			
Long-term liabilities to banks and others	16	**5,785**	3,859
Provision for reclamation and disposal of waste		**122**	99
Debentures convertible into shares of the Corporation	17	**-**	253
Deferred taxes	27	**1,520**	1,061
Liability for employee severance benefits, net	18	**1,200**	826
		8,627	6,098
Contingent liabilities, commitments and concessions	19		
Debentures convertible into shares of the Corporation and into shares of a subsidiary	17	**336**	314
Minority interest		**2,527**	1,961
Liabilities relating to discontinued operations	12	**50**	413
Shareholders' equity	20	**3,612**	2,170
		22,058	15,929

(1) See Note 1C.
(2) Adjusted amounts for the effect of inflation in terms of NIS of December 2003.
* Reclassified, mainly due to discontinued operations – see Note 12.

The notes are an integral part of the financial statements.

Balance Sheets as at December 31

	Note	2004 Reported amounts (1) 2004 NIS millions	2003 Adjusted amounts (2) 2003 NIS millions
Current assets			
Cash and cash equivalents		**-**	4
Marketable securities	2	**9**	-
Short-term loans	3	**470**	437
Other receivables	5	**5**	5
		484	446
Investments			
Investments in investee companies	7	**4,885**	3,186
Investments in other companies	8	**4**	4
		4,889	3,190
Deferred expenses		**4**	2
		5,377	3,638

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

March 28, 2005

(1) See Note 1C.
(2) Adjusted amounts for the effect of inflation in terms of NIS of December 2003.

The notes are an integral part of the financial statements.

	Note	2004 Reported amounts (1) 2004 NIS millions	2003 Adjusted amounts (2) 2003 NIS millions
Current liabilities			
Short-term credit from banks	13	**243**	164
Other payables	15	**35**	25
		278	189
Long-term liabilities			
Liabilities to banks	16	**1,226**	989
Debentures convertible into shares of the Corporation	17	**-**	249
Deferred taxes	27	**93**	41
		1,319	1,279
Contingent liabilities, commitments and concessions	19		
Debentures convertible into shares of the Corporation		**168**	-
Shareholders' equity	20	**3,612**	2,170
		5,377	3,638

(1) See Note 1C.
(2) Adjusted amounts for the effect of inflation in terms of NIS of December 2003.

The notes are an integral part of the financial statements.

Consolidated Statements of Earnings for the year ended December 31

	Note	2004 Reported amounts (1) 2004 NIS millions	*2003 Adjusted amounts (2) 2003 NIS millions	*2002 Adjusted amounts (2) 3003 NIS millions
Sales, shipping and services	21	**23,499**	10,101	9,365
Cost of sales, shipping and services	22	**18,170**	7,000	6,432
Gross profit		**5,329**	3,101	2,933
Selling, transport and marketing expenses	23	**1,925**	1,654	1,482
General and administrative expenses	24	**937**	465	415
Research and development expenses, net		**144**	128	132
		3,006	2,247	2,029
Operating earnings		**2,323**	854	904
Financing expenses, net	25	**(347)**	(117)	(359)
Other income (expenses), net	26	**281**	(160)	(143)
Earnings (loss) before taxes		**2,257**	577	402
Income tax	27	**(546)**	(145)	(189)
Earnings (loss) after taxes		**1,711**	432	213
Group's equity in the net earnings (losses) of affiliates, net	28	**31**	110	(300)
Minority interest in the net earnings of subsidiaries, net		**(574)**	(203)	(187)
Earnings (loss) from continuing operations		**1,168**	339	(274)
Earnings (loss) from discontinued operations, net	12	**208**	(14)	(25)
Net earnings (loss) for the year		**1,376**	325	(299)
		NIS	**NIS**	**NIS**
Earnings (loss) per share of NIS 1 par value – basic and diluted	29			
Earnings (loss) from continuing operations		**157.64**	48.99	(39.77)
Earnings (loss) from discontinued operations, net		**27.46**	(2.02)	(3.63)
Net earnings (loss) per share		**185.10**	46.97	(43.40)

(1) See Note 1C.
(2) Adjusted amounts for the effect of inflation in terms of NIS of December 2003.
* Reclassified, mainly due to discontinued operations – see Note 12.

The notes are an integral part of the financial statements.

Statements of Earnings for the year ended December 31

	Note	2004 Reported amounts (1) 2004 NIS millions	2003 Adjusted amounts (2) 2003 NIS millions	2002 Adjusted amounts (2) 3003 NIS millions
Income				
Corporation's equity in earnings (losses) of investee companies, net	28	**1,473**	447	(226)
Other income (expenses), net	26	**40**	(12)	(5)
		1,513	435	(231)
Expenses				
General and administrative expenses	24	**9**	4	2
Financing expenses, net	25	**76**	80	71
		85	84	73
Earnings (losses) before taxes		**1,428**	351	(304)
Income tax	27	**(52)**	(26)	5
Net earnings (losses) for the year		**1,376**	325	(299)
		NIS	**NIS**	**NIS**
Earnings (loss) per share – basic and diluted				
Net earnings (loss) per share of NIS 1 par value	29	**185.10**	46.97	(43.40)

(1) See Note 1C.
(2) Adjusted amounts for the effect of inflation in terms of NIS of December 2003.

The notes are an integral part of the financial statements.

Statements of Changes in Shareholders' Equity

	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
			Adjusted amounts (2)			
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Balance as at January 1, 2002	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

	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
			Reported amounts (1)			
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Balance as at January 31, 2004	**1,467**	**(10)**	**(82)**	**-**	**795**	**2,170**
Changes in 2004:						
Net earnings for the year	-	-	-	-	**1,376**	**1,376**
Proposed dividend	-	-	-	**220**	**(220)**	-
Adjustments from translation of financial statements	-	-	**46**	-	-	**46**
Conversion of debentures into Shares	**49**	-	-	-	-	**49**
Issuance of shares	**(10)**	**10**	-	-	-	-
Realization of reserves due to sale of investment	-	-	**(29)**	-	-	**(29)**
Change in accounting method in affiliated company (3)	**(3)**	-	**7**	-	**(4)**	-
Balance as at December 31, 2004	**1,503**	**-**	**(58)**	**220**	**1,947**	**3,612**

(1) See Note 1C.
(2) Adjusted amounts for the effect of inflation in terms of NIS of December 2003.
(3) See Note 7E3g.

The notes are an integral part of the financial statements.

Consolidated Statements of Cash Flows for the year ended December 31

	2004	*2003	*2002
	Reported amounts (1)	Adjusted amounts (2)	Adjusted amounts (2)
	2004	2003	2002
	NIS millions	NIS millions	NIS millions
Cash flows generated by operating activities:			
Net earnings (loss) for the year	**1,376**	325	(299)
Adjustments to reconcile net earnings (loss) to net cash flows generated by operating activities (A)	**1,551**	1,602	1,897
Net cash inflow generated by continuing operating activities	**2,927**	1,927	1,598
Net cash inflow (outflow) generated by discontinued operating activities	**(17)**	(26)	25
Net cash inflow generated by operating activities	**2,910**	1,901	1,623
Cash flows generated by investing activities:			
Investments in investee and other companies	**(29)**	(49)	(148)
Acquisition of fixed and other assets	**(1,875)**	(605)	(840)
Long-term loans granted	**(57)**	(56)	(23)
Investment grant in respect of fixed assets	**17**	44	56
Proceeds from sale of fixed and other assets	**687**	15	59
Collection of long-term loans	**48**	32	42
Granting of short-term loans and making of deposits in banks, net	**(425)**	(147)	(128)
Proceeds from sale of investments in investee and other companies	**457**	38	25
Acquisition of newly consolidated subsidiaries (B)	**(19)**	-	(107)
Proceeds from sale of investments in formerly consolidated subsidiaries (C)	**88**	-	(3)
Net cash outflow generated by continuing investing activities	**(1,108)**	(728)	(1,067)
Net cash inflow generated by discontinued investing activities	**375**	54	-
Net cash outflow generated by investing activities	**(733)**	(674)	(1,067)
Cash flows generated by financing activities:			
Proceeds from exercise of options granted to employees of the Corporation and a subsidiary	**4**	3	26
Acquisition of a subsidiary's shares by its subsidiary	**-**	(9)	-
Dividend paid to minority shareholders of subsidiaries	**(194)**	(129)	(121)
Dividend paid	**-**	(134)	-
Issuance of convertible debentures and receipt of long-term loans	**2,594**	1,005	1,526
Repayment of debentures and long-term liabilities	**(2,004)**	(2,248)	(1,723)
Received (repayment)of short-term loans, net	**(1,329)**	303	(251)
Net cash outflow generated by continuing financing activities	**(929)**	(1,209)	(543)
Net cash outflow generated by discontinued financing activities	**(132)**	(1)	-
Net cash outflow generated by financing activities	**(1,061)**	(1,210)	(543)
Translation differences of cash balances in autonomous entities	**(49)**	6	3
Increase in cash and cash equivalents	**1,067**	23	16
Decrease (increase) in cash and cash equivalents relating to discontinued operations	**11**	(31)	-
Increase (decrease) in cash and cash equivalents	**1,078**	(8)	16
Balance of cash and cash equivalents at beginning of the year	**139**	147	131
Balance of cash and cash equivalents at end of the year	**1,217**	139	147

(1) See Note 1C.
(2) Adjusted amounts for the effect of inflation in terms of NIS of December 2003.
* Reclassified, mainly due to discontinued operations – see Note 12.

The notes are an integral part of the financial statements.

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

	2004	*2003	*2002
	Reported amounts (1)	Adjusted amounts (2)	Adjusted amounts (2)
	2004	2003	2002
	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, net of dividends	**(47)**	(88)	199
Minority interest in earnings of subsidiaries, net	**574**	203	187
Depreciation and amortization	**1,269**	846	992
Deferred taxes, net	**33**	(35)	132
Capital losses (gains), net	**(592)**	(44)	19
Inflationary erosion of long and short-term loans granted and increase in value of marketable securities, net	**(22)**	(60)	51
Inflationary erosion of loans received and of short and long-term liabilities	**88**	(19)	(33)
Increase in liability for employee severance Benefits, net	**296**	102	13
Loss (gain) from discontinued operations	**(208)**	14	(25)
	1,391	919	1,535
Changes in asset and liability items:			
Decrease (increase) in trade and other receivables	**(687)**	598	284
Decrease (increase) in inventories	**126**	(127)	49
Increase in uncompleted voyages, net	**142**	-	-
Increase in trade and other payables	**559**	195	29
Increase in provision for reclamation and disposal of waste	**20**	17	-
	160	683	362
	1,551	1,602	1,897
B. Acquisition of newly consolidated subsidiaries			
Working capital (excluding cash and cash equivalents)	**642**	-	(9)
Investment in affiliate that became a subsidiary	**485**	-	-
Fixed assets, other assets and long-term receivables	**(3,887)**	-	(43)
Deferred taxes	**418**	-	(55)
Minority interest	**26**	-	-
Long-term loans	**2,297**	-	-
	(19)	-	(107)

(1) See Note 1C.
(2) Adjusted amounts for the effect of inflation in terms of NIS of December 2003.
* Reclassified, mainly due to discontinued operations – see Note 12.

The notes are an integral part of the financial statements.

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

	2004	*2003	*2002
	Reported amounts (1)	Adjusted amounts (2)	Adjusted amounts (2)
	2004	2003	2002
	NIS millions	NIS millions	NIS millions
C. Proceeds from sale of investments in formerly consolidated subsidiaries			
Working capital (excluding cash and cash equivalents)	**10**	-	(4)
Investments, fixed assets, other assets and long-term receivables	**54**	-	3
Deferred taxes	**9**	-	-
Long-term liabilities	**(5)**	-	(2)
Capital gain on sale of investment	**20**	-	-
	88	-	(3)
D. Non-cash transactions			
Conversion of debentures into shares in the Corporation and in a subsidiary	**208**	32	-
Acquisition of fixed assets on supplier credit	**57**	10	-

(1) See Note 1C.
(2) Adjusted amounts for the effect of inflation in terms of NIS of December 2003.
* Reclassified, mainly due to discontinued operations – see Note 12.

The notes are an integral part of the financial statements.

Statements of Cash Flows for the year ended December 31

	2004	2003	2002
	Reported amounts (1)	Adjusted amounts (2)	Adjusted amounts (2)
	2004	2003	2002
	NIS millions	NIS millions	NIS millions
Cash flows generated by operating activities:			
Net earnings (loss) for the year	**1,376**	325	(299)
Adjustment to reconcile net earnings (loss) to net cash flows generated by operating activities (A)	**(1,173)**	(304)	366
Net cash inflow generated by operating activities	**203**	21	67
Cash flows generated by investing activities:			
Investments in investee and other companies	**(523)**	(8)	(19)
Long-term loans granted to investee companies	**(43)**	(91)	(143)
Acquisition of marketable securities	**(9)**	-	-
Collection of long-term loans from investee companies	**114**	149	128
Collection (granting) of short-term loans from/(to) investee companies, net	**(49)**	116	(23)
Proceeds from sale of investments in investee and other companies	**4**	47	12
Net cash inflow (outflow) generated by investing activities	**(506)**	213	(45)
Cash flows generated by financing activities:			
Exercise of options granted to employees	**-**	(3)	(4)
Dividend paid	**-**	(134)	-
Short-terms loans, net	**-**	-	(32)
Receipt of long-term loans and liabilities	**468**	328	103
Repayment of long-term loans	**(169)**	(423)	(102)
Net cash inflow (outflow) generated by financing activities	**299**	(232)	(35)
Increase (decrease) in cash and cash equivalents	**(4)**	2	(13)
Balance of cash and cash equivalents at beginning of the year	**4**	2	15
Balance of cash and cash equivalents at end of the year	**-**	4	2

(1) See Note 1C.
(2) Adjusted amounts for the effect of inflation in terms of NIS of December 2003.

The notes are an integral part of the financial statements.

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

	2004	2003	2002
	Reported amounts (1)	**Adjusted amounts (2)**	**Adjusted amounts (2)**
	2004	**2003**	**2002**
	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 dividends	**(1,203)**	(350)	360
Deferred taxes, net	**52**	26	(5)
Depreciation and amortization	**5**	1	4
Capital gains (losses), net	**(46)**	2	-
Inflationary erosion of long and short-term loans granted	**(2)**	2	(4)
Inflationary erosion of long and short-term loans received	**10**	8	9
	(1,184)	(311)	364
Changes in asset and liability items:			
Increase in other receivables	**-**	(4)	(1)
Increase in other payables	**11**	11	3
	11	7	2
	(1,173)	(304)	366

B. Non-cash transactions

Conversion of debentures into shares of the Corporation	**49**	-	-

(1) See Note 1C.
(2) Adjusted amounts for the effect of inflation in terms of NIS of December 2003.

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 – 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, 1993.
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.
13. Adjusted amount – The nominal historical amount adjusted in accordance with the provisions of Opinions 23 and 34 and Opinions 36 and 37.
14. Reported amount – The adjusted amount as at the transition date (December 31, 2003), with the addition of amounts in nominal values that were added after the transition date and less amounts eliminated after the transition date.
15. Adjusted financial reporting – Financial reporting based on the provisions of Opinions 23, 34, 36, 37 and 50.
16. Nominal financial reporting – Financial reporting based on reported amounts.

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

C. Discontinuance of adjustment of financial statements

1. In October 2001 the Israeli Accounting Standards Board published Accounting Standard No. 12, "Discontinuance of Adjustment of Financial Statements". Pursuant to this Standard and in accordance with Accounting Standard No. 17 that was published in December 2002, the adjustment of financial statements will be discontinued as of January 1, 2004. Up to December 31, 2003, the Corporation continued to prepare adjusted financial statements in accordance with Opinion No. 36 of the Institute of Certified Public Accountants in Israel. The Corporation has implemented the provisions of the Standard and has accordingly discontinued the adjustment as of January 1, 2004.

2. In the past the Corporation prepared its financial statements on the basis of historical cost adjusted for the changes in the Consumer Price Index (CPI). The adjusted amounts included in the financial statements as at December 31, 2003 constitute the starting point for the nominal financial report as of January 1, 2004. Any additions made during the period are included according to their nominal values.

3. Amounts of non-monetary assets do not necessarily reflect their realizable value or updated economic value but, rather, only the reported amounts of such assets.

4. The term "cost" in these financial statements means the reported amount of cost.

5. The financial statements of certain subsidiaries are presented based on the changes in rates of exchange of their relevant functional currencies. See E., below.

6. All the comparative data for prior periods is stated after being adjusted to the CPI of December 31, 2003.

D. Reporting principles

1. Balance sheet:

   A. Non-monetary items are stated at reported amounts.

   B. Monetary items are stated in the balance sheet at their nominal historical values as at the balance sheet date.

2. Statement of earnings:

   A. Income and expenses deriving from non-monetary items or from provisions included in the balance sheet are calculated as the difference between the reported amount of the opening balance and the reported amount of the closing balance.

   B. All other operating items are stated at their nominal values.

3. Statement of changes in shareholders' equity:

   A dividend declared in the period of the report is presented in nominal values.

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

E. Effect of changes in exchange rates of foreign currency

As of January 1, 2004, the Corporation applies Accounting Standard No. 13, regarding the "Effects of Changes in Exchange Rates of Foreign Currency". The Standard deals with the translation of transactions in foreign currency and the translation of financial statements of foreign activities for purposes of the inclusion thereof with the financial statements of the reporting entity. The Standard provides principles for classification of foreign activities as an autonomous investee entity overseas or as an integrated extension based on the indicators enumerated in the Standard and the use of discretion, as well as the manner of translation of the financial statements of autonomous investee entities as stated.

<u>Transactions in foreign currency</u>

Transactions denominated in foreign currency are recorded at the time of their initial recognition based on the rate of exchange on the transaction date. Exchange rate differences arising during the period deriving from the payment of monetary items, or deriving from reporting the company's monetary items at exchange rates different from those originally used to record the transaction or from those reported in prior financial statements, are recorded on the statement of earnings.

<u>Foreign activities classified as autonomous investee entities</u>

The financial statements of investee companies operating overseas as an "autonomous investee entity" of the Group, were translated as follows:

1. The monetary and non-monetary assets (including goodwill created after January 1, 2004) and liabilities of an autonomous investee entity overseas were translated based on the closing rate.
2. Items of income and expense were translated based on the rate of exchange at the time of execution of the transaction or based on the average exchange rates for the period.
3. All exchange rate differences created were classified in a separate category in the shareholders' equity section up to the time of realization of the net investment.

A write down of the value an investment in an autonomous investee entity overseas does not constitute a partial realization and, therefore, no portion the exchange rate differences is recorded on the statement of earnings at time of such write down.

<u>Activities classified as integrated operations</u>

The financial statements of companies operating in foreign countries as an "integrated operation" of the Group, were translated into Israeli currency, as follows:

Non-monetary balance sheet items	–	based on the exchange rate on the date of the transaction.
Monetary balance sheet items	–	based on the closing exchange rate.
Statement of earnings items	–	based on the average exchange rates, except for income and expenses relating to non-monetary items, which were translated based on the same historical exchange rates used to translate the corresponding non-monetary items.

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

F. 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 appendix 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.

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 (after allocation of taxes deriving from temporary differences) as at the acquisition date, 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. (hereinafter – ICL) and Dead Sea Works Ltd., which is amortized over a period of 20 years, 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.

   (c) The excess of cost 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.

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

G. Use of estimates

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

H. 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.

I. Investment in 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.

J. 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.

K. 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. A loss on sale of trade receivables is recorded in the statement of earnings at the time of sale.

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

L. 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.
- Part of the raw materials, the finished goods and the goods in process are in bulk. The quantities are based on estimates made, mainly, by outside experts, who measure the volume of the inventories and their concentration.
- Inventory of commercial areas intended for sale – valued at the lower of cost or market.
- Inventory the sale of which is expected to occur in more than 12 months after the balance sheet date is presented as long-term inventory.

M. Investments in investee companies

1. Investments in investee companies (in the consolidated balance sheet – investments in 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.

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

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

4. Inter-company revenues not yet realized outside the Group have been eliminated.

N. 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 that in Management's evaluation does not exceed the realizable value.

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

O. 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 that is the weighted-average rate of the cost with respect to those credit sources, the costs of which were not capitalized specifically. In 2004 the discount rate was 2.4% (2003 – 1.7%).

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 that are designated for current use are included in the "inventory" item.

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

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	4–8
Plants, machinery and equipment	4–10
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

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

O. Fixed assets (cont'd)

8. Fleet of ships and related equipment

1) The fleet of ships and related equipment are presented at cost. Significant improvements that extend the useful lives of the ships are recorded to the cost of the ships.

   Part of the fleet of ships was acquired through loans bearing interest at reduced rates, which are subsidized, for the benefit of the shipyards, by the Government. These ships are presented net of the interest component implicit in the acquisition cost (the rate by which the regular market interest exceeds the subsidized interest rate).

2) Costs of credit used to finance payments on account of construction of ships, during the period up to the time of their being placed into service, are charged to the cost of the ships. In 2004, the discount rate used in calculation of the non-specific credit costs to the fleet of ships and related equipment was 3.9% (2003 – 3.1%).

3) The depreciation is calculated by the straight-line method, on the basis of the estimated useful lives of the assets (on the assumption of a residual value of 10%), as follows:

	%
Ships	20–25
Containers	13
Towing vessels	30
Other equipment	13

4) Ships and their equipment (containers and towing vessels) leased under capital leases are presented as part of the property of the companies and are included based on the regular acquisition costs (without the financing component).

5) ZIM adopts the provisions of International Standard No. 17. The Standard distinguishes between cases in which the lease is defined as a financing lease or an operating lease.

   A lease is classified as a financing lease if it transfers substantially all of the risks and rewards incident to ownership. The legal ownership may or may not be transferred.

   If the lease is defined as a financing lease, the leased asset is recorded in the financial statements at the present value of the future lease payments, and a corresponding liability is recorded in respect of these payments.

   In sale and lease-back transactions, capital gains from the sale are charged only if the lease-back is defined as an operating lease.

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

P. Decline in value of assets

The Corporation applies Accounting Standard No. 15 – "Decline in Value of Assets" (hereinafter – "the Standard"). The Standard provides procedures the Corporation is required to apply in order to ensure that its asset in the consolidated balance sheet (to which the Standard applies) are not presented at an amount that exceeds the higher of the net selling price or the usage value (the present value of the estimated future cash flows expected to derive from use and disposal of the asset).

The Standard applies to all the assets in the consolidated balance sheet, except for inventory, deferred taxes and monetary assets (except for monetary assets constituting investments in investee companies that are not subsidiaries). In addition, the Standard provides the presentation and disclosure rules in respect of assets whose values have declined. Where the value of an asset in the consolidated balance sheet exceeds its recoverable value, the Corporation recognizes a loss from decline in value equal to the difference between its carrying value on the books and its recoverable value. The loss recognized, as stated, may be cancelled only if there has been a change in the estimates used in determining the asset's recoverable value from the last date on which a loss from a decline in value was recognized.

In September 2003, the Israeli Accounting Standards Board published Clarification No. 1 regarding the accounting treatment of a decline in value of an investment in an investee that is not a subsidiary (hereinafter – "the Clarification"). The Clarification provides that in the reporting periods succeeding the period in which a provision for decline in value with respect to an investee company that is not a subsidiary was first recorded, the investment in the investee company is to be reported at the lower of the recoverable value or the investment account maintained based on the equity method of accounting, where the amount of the recoverable value is calculated for each reporting period wherein there are signs that a change has occurred in the amount of the recoverable value. Losses from decline in value of an investment in an investee, which is not a subsidiary, that were recognized or cancelled during the period, are included in the category "Corporation's equity in earnings (losses) of affiliated companies".

In February 2004, the Israeli Accounting Standards Board published Clarification No. 3 regarding the accounting treatment of a decline in value of an investment in an autonomous investee entity that is not a subsidiary. The Clarification is designed to be used in application of the provisions of Accounting Standard No. 15 – "Decline in Value of Assets" and in Accounting Standard No. 13 – "Effect of the Changes in Foreign Currency Exchange Rates". The Clarification provides that in the reporting periods following the period in which the decline in value is first recorded (in foreign currency terms) in respect of an autonomous investee company that is not a subsidiary, the amount of the said provision for decline in value is to be valued in accordance with the changes in the foreign currency exchange rate and the translation differences in respect of the provision for decline in value are to be classified as a separate category in the "shareholders equity" section. Translation differences relating to a provision for decline in value are to be recognized as income or expenses in the period in which there is a reduction in the provision in foreign currency terms, in proportion to such reduction in the said provision.

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

Q. Other assets and deferred expenses

The amortization policy is as follows:

Goodwill – see F.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.

R. 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. The balances of the deferred taxes (asset or liability) are calculated 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, based on the rates and the tax laws passed or which have effectively been enacted, up to the balance sheet date.

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

   1) A temporary difference created at the time of the initial recognition of goodwill.

   2) Investments in investee companies, which it is the intention of the Corporation to hold and not to sell.

   3) 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 that 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 that involve additional tax to the receiving company in the foreseeable future.

S. 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.

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

T. 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 18, 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.

   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 (15 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.

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

U. Monetary balances presented based on present value

Monetary balances (mainly, long-term liabilities) that do not bear interest or that bear interest at a rate less than the regular market interest rate, are presented based on their present values calculated in accordance with the regular market interest rate at the time of their creation.

V. Recognition of income

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

2. Revenues and costs in connection with cargo shipping are recorded based on the percentage of completion of the voyages. The percentage of completion is determined based on the ratio of the number of days that have passed from the beginning of the voyage to the balance sheet date, to the estimated total number of days the voyage is expected to last. Regarding voyages expected to produce losses, a provision is recorded for the full amount of the expected loss. Revenues from provision of related services are recorded concurrent with provision of the services.

3. Regarding recognition of revenue from concession agreements for provision of desalinization services, see Section ZA., below.

W. Research and development expenses

Research and development expenses are charged to expense as incurred.

X. Shipping expenses

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

Y. Provision for special repairs to ships

The accounts include a provision for special repairs (overhauls) of ships. The provision is determined based on an estimate of the anticipated expenses during a five-year repair cycle (during which every ship is expected to undergo two overhauls), where every year an amount equal to one-fifth of the estimate is recorded to expense, which is then updated every year. The actual expenses are charged against the provision. The current repair cycle began 2004.

Z. 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)

ZA. Concession agreements for provision of desalinization services

As stated in Note 19C2, a proportionately consolidated company, I.D.E. Technologies Ltd. (hereinafter – "IDE"), has concession agreements for provision of desalinization services, based on the BOT (build, operate and transfer) method. Pursuant to the aforementioned agreements, IDE is required to construct a desalinization facility and, thereafter, the other parties to the agreements are required to purchase specified quantities of the water produced by the facility over a pre-defined period, at the end of which time the facility is to be delivered to the other parties to the agreements.

From the standpoint of the aforementioned agreements, it appears that the party with the greatest potential benefit from the constructed facility and that bears the main risks involved therewith, is the party with which the investee companies signed the said agreements.

In light of the above, commencing with the financial statements for 2004, but with retroactive effect, the financial statements include a financial asset that expresses the debt of the customers to the investee companies in respect of construction of the facility. The balance of the debt accrues financing income while using the specific rate of return for the project, and it is to be repaid out of the future consideration expected to be received from the customers.

The balance of the future payments to be received (the portion exceeding the payment of the debt principal plus interest) will be recorded on the statement of earnings on a current basis as operating earnings concurrent with recording of the operating expenses.

The facility's operating and maintenance expenses will be recorded on the statement of earnings as incurred. The revenues from operations were calculated based on the amount of expenses recorded on the statement of earnings plus of fixed margin of 7%.

This accounting treatment is in accordance with the proposed Accounting Standard formulated by the Israeli Accounting Standards Board. When the Standard is ultimately published in its final form, IDE will examine the necessary adjustments, if any.

In the past, up to and including the financial statements for 2003, the project was presented as a fixed asset, and thus the profit from construction of the desalinization facility was deferred.

The financial statements for these years were reclassified in order to retroactively reflect therein the new accounting treatment. The effect of the change in the accounting treatment on the results of operations in the prior years is not material.

ZB. Presentation of transactions between the corporation and its controlling interest

Transactions between the Corporation and 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.

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

ZC. 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).

ZD. 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		
	2004	**2003**	**2004**	**2003**	**2002**
CPI – in points	**107.44**	106.16	**1.21**	(1.89)	6.50
Exchange rate of U.S. $1 (in NIS)	**4.308**	4.379	**(1.62)**	(7.56)	7.27

ZE. Derivative financial instruments

Gains and losses from hedging transactions on existing assets or liabilities are included in the statement of earnings concurrent with the results deriving from these 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 expenses 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 31).

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

ZF. Disclosure of the effect of new accounting standards in the period prior to their application

In July 2004, the Israeli Accounting Standards Board published Accounting Standard No. 19, "Taxes on Income". The Standard provides that a liability for deferred taxes is to be recorded for all temporary differences subject to tax, except for a limited number of exceptions. In addition, a deferred tax asset is to be recorded for all temporary differences that may be deducted, losses for tax purposes and tax benefits not yet utilized, if it is anticipated that there will be taxable income against which they can be offset, except for a limited number of exceptions. The new Standard applies to financial statements for periods beginning on January 1, 2005. The Standard provides that it is to be implemented by means of a cumulative effect of a change in accounting method. In the Corporation's estimation, the impact of the Standard on its results of operations, financial position and cash flows is not expected to be material.

Note 2 - Marketable Securities

	Consolidated		Corporation	
	2004	**2003**	**2004**	**2003**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**
Shares and share option warrants	**74**	52	-	-
Mutual fund participation certificates	**8**	42	-	-
Short-term treasury notes and Debentures	**392**	401	-	-
Corporate debentures	**346**	202	**9**	-
	870	697	**9**	-

Note 3 - Short-Term Loans and Deposits

	Consolidated		Corporation	
	2004	**2003**	**2004**	**2003**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**
Subsidiaries	-	-	**470**	437
Deposits with banks	**646**	229	-	-
Current maturities of long-term deposits	**29**	45	-	-
Others	-	2	-	-
	675	276	**470**	437

Note 4 - Trade Receivables

A. Composition

	Consolidated 2004	Consolidated 2003
	NIS millions	NIS millions
On open account (1)	**2,424**	643
Subordinated capital note and receivables in respect of sale of trade receivables (2)	**484**	558
Post-dated checks	**63**	38
	2,971	1,239
Less – allowance for doubtful debts	**85**	46
	2,886	1,193
(1) Including discounted notes	**48**	81

Companies in the Group are in the practice of discounting a portion of the trade receivables with banks and executing transactions guaranteeing payment of such receivables. 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 trade 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.

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

	2004	2003
	NIS millions	NIS millions
Trade receivables included as part of the securitization transaction at the balance sheet date	**1,368**	1,560
Less proceeds in respect of these trade receivables, net*	**934**	1,043
Subordinated capital note	**434**	517
Trade receivables sold and for which the consideration was received after the balance sheet date, net	**50**	41
Subordinated capital note and receivables in respect of sale of trade receivables	**484**	558

* As at the balance sheet date, the proceeds received in respect of sale of the trade receivables amounts to NIS 884 million (December 31, 2003 – NIS 1,002 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").

Note 4 - Trade Receivables (cont'd)

A. Composition (cont'd)

The Acquiring Company finances acquisition of the debts by means of a loan received from a financial institution, which is not related to ICL, which finances the loan out of the proceeds of 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.

On July 26, 2004, the Companies signed an agreement with Rabobank International for execution of a transaction involving sale of trade receivables (hereinafter – "the New Securitization Transaction"), in a similar format to the transaction that was in effect up to that time. Concurrently, at the same date, the Group reached an agreement with Bank of America to conclude the securitization transaction it had organized (hereinafter – "the Prior Securitization Transaction"). The conditions of the New Securitization Transaction are substantially similar to the conditions of the Prior Securitization Transaction, with the following main changes – (1) the cost in the New Securitization Transaction is less than the cost in the Prior Securitization Transaction, and (2) the total amount of cash to be received in the sale transaction in respect of sale of the trade receivables in the New Securitization Transaction will be up to $220 million, compared with $250 million in the Prior Securitization Transaction.

The acquisition will be on an ongoing basis, which will enable the Acquiring Companies to utilize the proceeds received from the customers whose debts were sold to acquire new trade receivables.

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

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

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 debt sold. The rate of the cash consideration varies according to the composition and behavior of the customer portfolio.

The Companies bear all the losses incurred, if any, by the Acquiring Companies as a result of non-payment of the trade receivables sold in the securitization transaction, up to the total 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, late supply, etc.).

Note 4 - Trade Receivables

A. Composition (cont'd)

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 consideration, as stated, and a receivable was recorded in respect of the sale of trade receivables where the related consideration was received subsequent to the balance sheet date.

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

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 4.50. 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	
	2004	**2003**	**2004**	**2003**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**
Affiliates	**5**	5	**5**	5
Government agencies	**163**	288	**-**	-
Investment grants receivable	**29**	45	**-**	-
Prepaid expenses	**125**	122	**-**	-
Employees	**23**	11	**-**	-
Deferred taxes	**102**	92	**-**	-
Other receivables	**188**	128	**-**	-
	635	691	**5**	5

Note 6 – Inventories

	Consolidated	
	2004	*2003
	NIS millions	NIS millions
Finished products	**1,208**	1,494
Work in progress	**473**	295
Raw and auxiliary materials	**379**	374
Maintenance materials and spare parts	**339**	355
Payments on account and goods in transit	**5**	14
	2,404	2,532
Inventory of commercial space held for sale (1)	**23**	27
	2,427	2,559
Less non-current inventory (presented in fixed assets)	**59**	91
Less long-term inventory	**135**	115
	2,233	2,353
(1) After deduction of provision for decline in value of	**17**	15

Note 7 - Investments in Investee Companies

A. Composition

	Consolidated		Corporation	
	2004	2003	2004	2003
	NIS millions	NIS millions	NIS millions	NIS millions
Investment in shares (1)				
Cost of shares (including earnings accumulated up to January 1, 1992), net	**1,041**	1,282	**3,022**	2,537
Earnings (loss) and capital reserves accumulated since January 1, 1992	**(20)**	(7)	**1,558**	130
	1,021	1,275	**4,580**	2,667
Provision for decline in value of investment in an affiliate	**(184)**	(87)	**(144)**	-
	837	1,188	**4,436**	2,667
Loans and capital notes (2)	**43**	12	**449**	519
	880	1,200	**4,885**	3,186

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

A. Composition (cont'd)

(1) Investment in shares

	Consolidated		Corporation	
	2004	**2003**	**2004**	**2003**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**
Subsidiaries	**-**	-	**3,818**	1,646
Proportionately consolidated companies	**-**	-	**22**	24
Affiliated companies	**837**	1,188	**596**	1,007
	837	1,188	**4,436**	2,677
Investment in shares of the Corporation held by a subsidiary	**-**	-	**-**	(10)
	837	1,188	**4,436**	2,667

(2) Loans and capital notes

	Consolidated			Corporation		
	Weighted average interest rate as at December 31 2004	**2004**	**2003**	**Weighted average interest rate as at December 31 2004**	**2004**	**2003**
	%	**NIS millions**	**NIS millions**	**%**	**NIS millions**	**NIS millions**
In CPI-linked Israeli currency	4.5	**26**	8	-	**3**	3
In foreign currency	3.0	**14**	4	5.2	**2**	46
In Israeli currency	8.7	**3**	-	-	**444**	470
		43	12		**449**	519
Repayment schedule – Not yet determined		**43**			**449**	

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

A. Composition (cont'd)

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

	Corporation	
	2004	**2003**
	NIS millions	**NIS millions**
Subsidiaries		
Initial amount	**113**	151
Unamortized balance	**65**	108

B. Changes in Investments

	Consolidated	Corporation
	2004	**2004**
	NIS millions	**NIS millions**
Balance at beginning of year	**1,200**	**3,183**
Changes during the year:		
Investments	**3**	**519**
Proceeds from realization of investments	**(2)**	**-**
Capital gains, net	**31**	**6**
Equity in earnings, net	**113**	**1,603**
Affiliated company which became a subsidiary and entry into the consolidation	**(373)**	**-**
Dividends	**(32)**	**(270)**
Adjustments arising from translation of financial statements	**27**	**46**
Changes in loans, net	**16**	**(70)**
Changes in provision for decline in value, net	**(99)**	**(144)**
Other changes, net	**(4)**	**12**
Balance at end of year	**880**	**4,885**

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

C. Marketable Securities

		2004		2003	
	Market value at 3.22.05	**Market value**	**Book value**	**Market value**	**Book value**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Subsidiary	**3,863**	**3,322**	**1,484**	2,030	1,286
Affiliated company	**90**	**139**	**100**	470	141

D. Dividends

	Consolidated		Corporation	
	2004	**2003**	**2004**	**2003**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**
From subsidiaries	**-**	-	**260**	85
From affiliated companies	**32**	10	**10**	10
	32	10	**270**	95

E. Supplementary Data on Investments

1. Investments

A. Tower Semiconductor Ltd. (hereinafter – Tower)

(1) 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 a net consideration of $75.1 million (including partial execution of the options granted to the underwriters).

In addition, Tower issued shares to Israel Corporation Technologies (I.C. Tech) Ltd. (hereinafter – "I.C. Tech"), the primary Wafer partners in Tower, and an additional partner in Tower (hereinafter – "the Investors") at a price of $7 per share for a consideration of $16.4 million, that was transferred to Tower in December 2003.

As a result of the public issuance, and after issuance of the share capital to the Investors, I.C. Tech's share in Tower declined to 21.7%, and the Group realized a capital gain of NIS 29 million.

(2) 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 amendment of the agreements, 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.

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)

The total amount of the Corporation's liability to invest in Tower pursuant to the letter of commitment shall not exceed $50 million.

The Corporation's obligation under the letter of commitment is given against the commitment 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).

As at the signing date of the financial statements, the balance of the Corporation's liability under the above-mentioned letter of commitment was $15 million.

(3) In 2003, 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.

(4) Pursuant to the credit agreement with the banks, Tower is required to comply with certain conditions and financial covenants (hereinafter – "the Financial Covenants"). As at the balance sheet date, mainly due to the slowdown in the semiconductor markets, Tower was not in compliance with some of the Financial Covenants. Tower has prepared an updated work plan for 2005, which is based on the existing and anticipated market conditions.

Subsequent to the balance sheet date, in January 2005, and in accordance with the work plan, Tower and the banks signed a letter of waiver on the part of the banks with respect to Tower's non-compliance with the Financial Covenants in the fourth quarter of the year of account, as well as an update of the Financial Covenants for 2005.

In the credit agreement with the banks it is stated that in the case of any violation, the banks may accelerate Tower's obligations and Tower will be forced, among other things, to immediately repay all of the loans it received from the banks (which at the balance sheet date amounted to $497 million) and the banks will be permitted to realize their available remedies in the credit agreement, including realization of liens recorded on all of Tower's assets.

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)

(5) In the current year, the Corporation included its share in Tower's losses, in the amount of NIS 133 million while, on the other hand, it reduced the balance of the provision for decline in value of its investment in Tower (that was recorded in 2002), in the amount of NIS 102 million.

(6) Due to the continuing slowdown in the semiconductors' market as well as owing to the continuing decline in the market price of Tower's shares, and the significant difference created between the market value of the investment and its carrying value on the books, along with Tower's continuing losses, the Corporation decided to write down its investment in Tower and to set it at the average market value of Tower's shares in the period shortly before the signing date of the Corporation's financial statements.

In the estimation of the Corporation's Management, the above-mentioned value constitutes a reasonable estimate of the recoverable amount.

As a result of that stated above, in the current year the Group included a provision for decline in the investment in Tower in the amount of NIS 48 million.

B. On February 5, 2004, the Corporation acquired all of the State's shares in ZIM International Shipping Services Ltd. (formerly – ZIM Israel Navigation Co. Ltd.) (hereinafter – "ZIM"), and during the period of the report the Corporation acquired part of the holdings of the other shareholders in ZIM. In total, the Corporation acquired 49% of ZIM's share capital at a cost of NIS 518 million. As at the balance sheet date, the Corporation holds 98% of ZIM's share capital.

The excess cost of the acquisition over the book value amounted to NIS 22 million and was allocated, net of the tax effect, to fixed assets and uncompleted voyages.

Up to December 31, 2003, the Corporation presented its investment in ZIM based on the equity method. Commencing January 1, 2004, ZIM's financial statements were consolidated for the first time. The Corporation's share in ZIM's results was calculated for the period from the acquisition date up to the balance sheet date.

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

E. Supplementary Data on Investments (cont'd)

1. Investments (cont'd)

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

	December 31 2004
	NIS millions
Balance sheet	
Current assets	**2,373**
Fixed assets, investments and other long-term receivables	**4,422**
Current liabilities	**(2,300)**
Long-term liabilities	**(2,821)**
Minority interest	**(1)**
Shareholder's equity	**(1,673)**
	-

	For the year ended December 31 2004
	NIS millions
Statement of earnings	
Sales	**10,889**
Cost of sales	**9,395**
Net earnings	**740**

A. In the third quarter of the period of the report, PSINet Europe B.V. and Sorbie Holding BVI, subsidiaries of the Corporation held at the rate of 62% (hereinafter – "the PSI Group"), sold a number of their investee companies in Europe, in two separate transactions, for an aggregate consideration of $112 million. Up to the balance sheet date, $90 million was received in cash. Part of the balance of the consideration is scheduled to be received during 2005 and part thereof is contingent on adjustments and conditions spelled out in the agreements. The Corporation's share in the after-tax gain realized amounts to NIS 193 million.

Regarding discontinuance of the operations, see Note 12.

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

2. Sale of Investments

B. In the second quarter of the period of the report, ICL sold its investment in Negev Industrial Minerals Ltd. (as well as in a sister company related thereto), for a consideration of $20 million. ICL's after-tax capital gain totals NIS 21 million and the Corporation's share is approximately NIS 11 million.

C. In the fourth quarter of the year of account, Tower sold all its shares in Saifun Semiconductor Ltd. for a consideration of $39 million. Pursuant to the agreement, under certain circumstances, Tower may receive additional amounts up to August 2005. The Group's gain on the sale amounted to $7 million.

D. Regarding exercise of the option for sale of Oil Refineries Ltd., see Note 19D.

3. Additional Information

A. In the year of the report, the amount of the Corporation's investment in Oil Refineries Ltd. (hereinafter – "ORL") based on the equity method of accounting increased above the exercise price of the option. The exercise price of the option derives from the Corporation's notification to the Government on August 4, 2003, according to which, the Corporation decided, by virtue of the provisions of Appendix C of the Arrangement, to exercise the option to sell all its shares of ORL at a price constituting an average between the two overall valuations of ORL, subject to certain adjustments (see also Note 19D).

Pursuant to the above, the Corporation set its investment in ORL at the exercise price of the option, in the amount of NIS 600 million, which is NIS 136 million less than the amount of the investment based on the equity method of accounting.

B. 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 that 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%.

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

3. Additional Information (cont'd)

– 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.

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

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

D. 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 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 and 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.

E. During 2004, 6.6 million options were exercised for 3.8 million shares of ICL as part of ICL's options' plan from 1999 (of which 2 million options were exercised by the Chairman of ICL's Board of Directors who serves as the CEO of Israel Corporation) for 1.2 million shares of ICL. As at the balance sheet date, all the options under this plan were exercised for shares of ICL.

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

3. Additional Information (cont'd)

F. An affiliated company of Oil Refineries Ltd. adjusted its financial statements by means of a restatement in order to retroactively reflect therein a change in the adjustment basis to adjustment based on the CPI instead of adjustment based on the dollar exchange rate, as was the practice in the past. The effect on the change on the Corporation's financial statements is not material.

Note 8 - Investments in Other Companies

A. Composition

	Consolidated		Corporation	
	2004	**2003**	**2004**	**2003**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**
Investment in SQM (1)	**-**	234	**-**	-
Non-quoted shares	**14**	8	**4**	4
Limited partnerships	**3**	4	**-**	-
Total	**17**	246	**4**	4
After a provision for decline in value of	**6**	5	**4**	5

(1) In the year of account, a subsidiary of ICL sold its holdings in the shares of SQM for a consideration of NIS 433 million. The Group realized a capital gain of NIS 99 million.

Note 9 - Deposits, Loans and Long-Term Receivables

A. Linkage basis and interest rates

	Consolidated		
	Weighted average interest rate as at December 31 2004	**2004**	**2003**
	%	**NIS millions**	**NIS millions**
In Israeli currency, linked to the CPI	5.0	**30**	45
In foreign currency or linked thereto (mainly Cyprus pounds)	4.8	**142**	132
In unlinked Israeli currency	2.6	**34**	20
Total (1)		**206**	197
Less current maturities		**29**	45
		177	152
(1) Including deposits in banks		**49**	29

B. Repayment schedule –

	Consolidated
	2004
	NIS millions
Second year	**28**
Third year	**25**
Fourth year	**22**
Fifth year	**20**
Sixth year and thereafter	**59**
Not yet determined	**23**
	177

Note 10 - Fixed Assets

Consolidated

	Balance at beginning of year	Additions	Disposals	Translation differences affecting reserves	Entry into the consolidation	Balance at end of year
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cost						
Land, land development, roads, buildings and leasehold improvements	2,273	74	(28)	5	135	2,459
Installations, machinery and equipment	13,090	535	(286)	(49)	-	13,290
Dams and evaporation ponds	1,761	84	-	40	-	1,885
Heavy mechanical equipment railroad cars and containers	516	23	(20)	(8)	-	511
Office furniture and equipment, motor vehicles and other equipment	778	116	(72)	1	243	1,066
Fleet of ships and equipment	-	1,245	(792)	(123)	6,200	6,530
	18,418	2,077	(1,198)	(134)	6,578	25,741
Plants under construction	494	-	(226)	10	-	278
Spare parts for installations	91	-	(31)	(1)	-	59
	19,003	2,077	(1,455)	(125)	6,578	26,078
Accumulated depreciation						
Land, land development, roads, buildings and leasehold improvements	1,002	46	(12)	13	36	1,085
Installations, machinery and equipment	8,221	506	(139)	(30)	-	8,558
Dams and evaporation ponds	1,254	60	-	14	-	1,328
Heavy mechanical equipment railroad cars and containers	409	13	(18)	(6)	-	398
Office furniture and equipment, motor vehicles and other equipment	602	108	(64)	(1)	174	819
Fleet of ships and equipment	-	313	(428)	(40)	2,761	2,606
	11,488	1,046	(661)	(50)	2,971	14,794
	7,515	1,031	(794)	(75)	3,607	11,284
Deposits on account of fixed assets						126
						11,410

Note 10 - Fixed Assets (cont'd)

Consolidated (cont'd)

	Net book value as at December 31	
	2004	**2003**
	NIS millions	**NIS millions**
Land, land development, roads, buildings and leasehold improvements	**1,374**	1,271
Installations, machinery and equipment	**4,732**	4,869
Dams and evaporation ponds	**557**	507
Heavy mechanical equipment, railroad cars and containers	**113**	107
Office furniture and equipment, motor vehicles and other equipment	**247**	176
Fleet of ships and equipment	**3,924**	-
Plants under construction	**278**	494
Spare parts for installations	**59**	91
Deposits on account of fixed assets	**126**	-
	11,410	7,515

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. Part of the land and buildings is owned by the Group companies whereas the balance is leased, with most of the lease contracts being defined as "perpetual leases".

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

4. A subsidiary in Spain has rights in real estate, designated for development in the future of new potash mines, in the amount of NIS 200 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 that are still in operation. As at December 31, 2004, the original cost of such assets exceeds NIS 5.2 million.

C. Fixed assets are stated net of amortized investment grants, in the amount of NIS 1,867 million (the original amount of the investments grants – NIS 4,158 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, a subsidiary in the ICL Group recorded a provision for decline in value of production facilities, and machinery and equipment, in the total amount of NIS 58 million, this being due the discontinuance of use of the production facilities.

Note 10 - Fixed Assets (cont'd)

F. Fleet of ships and equipment:

	December 31 2004
	NIS millions
Includes (after reduction):	
Interest component included in the acquisition price:	
Cost	408
Accumulated depreciation	(268)
Financing expenses capitalized to the cost of the ships:	
Cost	69
Accumulated depreciation	(30)
Ships and equipment leased under capital leases:	
Cost	1,177
Accumulated depreciation	(697)

Regarding ZIM's plan for acquiring and equipping new ships – see Note 19C3.

Regarding liens – see Note 19.

Note 11 - Other Assets and Deferred Expenses

	Consolidated			
	December 31, 2004		December 31, 2003	
	Original amount	Net book value	Original amount	Net book value
	NIS millions	NIS millions	NIS millions	NIS millions
Goodwill in respect of subsidiaries	**696**	375	**715**	413
Concessions	**416**	353	**423**	373
Other deferred expenses	**117**	43	**107**	44
	1,229	771	**1,245**	830

Note 12– Discontinued Operations

In the third quarter of the year of account, PSINet Europe B.V. and Sorbie Holding BVI, subsidiaries of the Corporation held at the rate of 62% (hereinafter – "the PSI Group"), sold a number of their investee companies in Europe, in two separate transactions, for an aggregate consideration of $112 million. The Corporation's share in the gain realized, net of taxes, amounts to NIS 193 million.

The companies sold constituted a separate component of the Corporation and were engaged in the communications area. Upon their sale, there are no longer any activities in this area. Accordingly, the investment in the PSI Group are presented as discontinued operations in accordance with Accounting Standard No. 8 – Discontinued Operations. The assets and liabilities relating to the discontinued operations were presented in separate categories, after the "fixed assets" category and after the "minority interest" category, respectively. In the statement of earnings, income from discontinued operations was included after the share of the minority interest (including the capital gain realized on the sale, as stated above). In addition, the cash flows from the discontinued operations were shown separately from the cash flows from the continuing operations in the Statement of Cash Flows.

Set forth below is detail of the assets and liabilities relating to the discontinued operations:

	December 31 2004	**December 31 2003**
	NIS millions	**NIS millions**
Assets relating to the discontinued operations		
Cash and cash equivalents	**18**	31
Trade and other receivables	**56**	92
Fixed assets	**-**	224
Other assets and long-term investments	**-**	68
	74	415
Liabilities relating to the discontinued operations		
Trade payables	**35**	245
Long-term liabilities	**-**	149
Minority interest	**15**	19
	50	413

	2004	***2003**	***2002**
	NIS millions	**NIS millions**	**NIS millions**
Sales	**320**	117	-
Cost of sales	**(187)**	(55)	-
Selling, administrative and general expenses	**(184)**	(68)	-
Operating earnings (loss)	**(51)**	(6)	-
Financing expenses and other income	**369**	3	-
Earnings (loss) before taxes on income	**318**	(3)	-
Share in losses of affiliated companies (*)	**-**	(10)	(25)
Minority interest in earnings	**(110)**	(1)	-
Net earnings (loss)	**208**	(14)	(25)

* The group was consolidated as of October 2003.

Note 13 – Short-Term Credit from Banks and Others

	Consolidated			Corporation	
	Weighted average interest rate as at December 31, 2004	2004	2003	2004	2003
	%	NIS millions	NIS millions	NIS millions	NIS millions
Credit from banks and financial institutions					
In Israeli currency – unlinked	6.0	**65**	125	**-**	-
In dollars or linked thereto	2.9	**635**	1,422	**-**	-
In foreign currency or linked thereto	3.0	**156**	153	**-**	-
		856	1,700	**-**	-
Current maturities					
Liabilities to banks and others		2,093	957	**201**	164
Debentures convertible into shares of the Corporation		42	-	**42**	-
		2,135	957	**243**	164
		2,991	2,657	**243**	164

Regarding liens – see Note 19.

Note 14 - Trade Payables

	Consolidated	
	2004	2003
	NIS millions	NIS millions
Open accounts (1)	**1,699**	1,083
Checks payable	**5**	6
	1,704	1,089
(1) Includes: affiliated companies	**18**	29

Note 15 - Other Payables

	Consolidated		Corporation	
	2004	2003	2004	2003
	NIS millions	NIS millions	NIS millions	NIS millions
Affiliated companies	**17**	9	**-**	-
Government agencies	**240**	112	**2**	2
Payroll and payroll related agencies	**646**	588	**-**	-
Customer advances and deferred income	**28**	35	**-**	-
Accrued expenses	**186**	194	**33**	23
Voyages not yet completed (1)	**435**	-	**-**	-
Other	**659**	289	**-**	-
	2,211	1,227	**35**	25

(1) After deduction of a provision for losses in the amount of NIS 10 million.

Note 16 - Long-Term Liabilities to Banks and Others

A. Composition

	Consolidated		Corporation	
	2004	2003	2004	2003
	NIS millions	NIS millions	NIS millions	NIS millions
Loans from banks	**6,909**	4,728	**1,234**	1,153
Debentures (1)	**193**	-	**193**	-
Loans from shipyards and others	**143**	9	**-**	-
Liabilities in respect of capital leases (2)	**666**	79	**-**	-
	7,911	4,816	**1,427**	1,153
Less: balance of discount for amortization (3)	**33**	-	**-**	-
	7,878	4,816	**1,427**	1,153
Less: current maturities	**2,093**	957	**201**	164
	5,785	3,859	**1,226**	989

(1) In the year of account, the Corporation issued non-marketable debentures to institutional investors in the amount of NIS 200 million. The debenture principal and interest is linked to the CPI.
The Corporation executed a transaction pursuant to which the terms of the debentures, in the amount of NIS 200 million, were swapped from linked shekel interest to dollar interest.

(2) After offset of a deposit in the amount of NIS 47 million that is deposited in a bank and is intended for payment in respect of exercise of the purchase option in the lease contract.

(3) In respect of loans received in connection with acquisition of ships.

Note 16 - Long-Term Liabilities to Banks and Others

B. Interest rates and linkage bases

	Consolidated			Corporation		
	Weighted average interest rate as at December 31 2004	2004	2003	Weighted average interest rate as at December 31 2004	2004	2003
	%	NIS millions	NIS millions	%	NIS millions	NIS millions
Currency and linkage basis						
In US dollars or linked thereto	3.8	**7,187**	4,166	3.9	**1,322**	1,048
In other currencies or linked thereto	4.5	**569**	542		-	-
In CPI linked Israeli currency	5.2	**122**	108	5.4	**105**	105
		7,878	4,816		**1,427**	1,153
Less – current maturities		**2,093**	957		**201**	164
		5,785	3,859		**1,226**	989

C. Repayment schedule:

	Consolidated 2004	Corporation 2004
	NIS millions	NIS millions
Second year	**1,450**	**223**
Third year	**1,934**	**286**
Fourth year	**755**	**215**
Fifth year	**870**	**423**
Sixth year and thereafter	**776**	**79**
	5,785	**1,226**

Regarding liens – see Note 19.

D. Subsequent to the balance sheet date, the Corporation recycled credit received for financing acquisition of shares of ICL, in the amount of $28 million (recycle of current maturities that were repaid in 2004). In addition, the repayment dates of the current maturities in 2005, in the amount of $37.5 million, were extended.

Pursuant to the loan agreement, half of the total amount of $65.5 million is to be repaid in December 2010 whereas the other half is to be repaid in quarterly installments commencing March 31, 2007.

Note 17 - Debentures Convertible into Shares of the Corporation and of a Subsidiary

A. Composition

	Consolidated		Corporation	
	2004	2003	2004	2003
	NIS millions	NIS millions	NIS millions	NIS millions
Presented in current liabilities				
Debentures convertible into shares of the Corporation (1)	**42**	-	**42**	-
Presented in long-term liabilities				
Debentures convertible into shares of the Corporation (1)	-	253	-	249
Presented as quasi-capital				
Debentures convertible into shares of the Corporation (1)	**171**	-	**168**	-
Debentures convertible into shares of a subsidiary (2)	**165**	314	-	-
	336	314	**168**	-

(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 year of account, NIS 48,757,100 par value of Debentures were converted and 69,653 ordinary shares were issued in exchange for them. Subsequent to the balance sheet date, NIS 46 million par value of Debentures were converted and 65,562 ordinary shares were issued in exchange for them.

As at December 31, 2004, in the estimation of the Corporation's Management, conversion of the Debentures is probable 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 the equity value).

(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 17 - 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 NIS 1 par value and every $1.1473 par value of the Dollar Debentures is convertible into one ordinary share of NIS 1 par value. If all the Debentures are converted into shares the total share capital of ICL will increase by about NIS 59 million par value.

ICL has an option, exercisable beginning from October 2005, to redeem, under certain conditions, the Debentures – in whole or in part – at a redemption price that reflects an annual dollar yield of 4.1%.

The Debenture holders are permitted in October 2003 and October 2005 to demand from ICL, under certain conditions, to redeem the debentures they hold, at a redemption price that reflects the annual dollar yield for early redemption, and to pay the annual accumulated interest.

During the year of account, NIS 54 million par value of Shekel Debentures were converted into 11 million ordinary shares of NIS 1 par value of ICL. In addition, $20 million Dollar Debentures were converted into 17 million ordinary shares of NIS 1 par value of ICL.

Due to the conversions, the Group's share in ICL declined from 53.1% to 51.6%, and the Group realized a capital gain of NIS 17.4 million.

Subsequent to the balance sheet date, $35 million Dollar Debentures were converted into 31 million ordinary shares of NIS 1 par value of ICL. Due to the conversion, the Group's share in ICL declined to 50.4%, and the Group realized a capital gain of NIS 10 million.

As at December 31, 2004, in the opinion of ICL's management, conversion of the Debentures is probable 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 equity 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 49.2%.

B. Repayment year

	Consolidated	Corporation
	2004	2004
	NIS millions	NIS millions
Second year	**43**	42
Third year	**207**	42
Fourth year	**43**	42
Fifth year	**43**	42
	336	168

Regarding liens – see Note 19.

Note 18 - Liabilities for Employee Severance Benefits, Net

A. Composition

	Consolidated	
	2004	**2003**
	NIS millions	**NIS millions**
Liabilities for severance benefits	**780**	564
Liabilities for pension and early retirement benefits	**1,177**	942
Liabilities for unused sick days	**61**	28
	2,018	1,534
Less – severance pay funds	**818**	708
	1,200	826

B. Severance Pay

Pursuant to the Israeli severance pay laws and the existing employment agreements, the Group companies are obligated to pay severance benefits to employees who are dismissed or who leave their positions under certain circumstances. The severance benefits are computed based on the length of their service and, generally, based on their latest salary at the rate of one salary for every year worked.

The liabilities relating to employee rights at the time of retirement are covered as follows:

A) Pursuant to the collective bargaining agreements, the Group companies in Israel make current deposits in outside pension plans with respect to part of their employees. In general, these plans provide full coverage for retirement benefits, and in certain other cases – 72% of the severance pay liability.

The liabilities for severance pay covered by these plans are not presented in the financial statements, since all of the risks involved with payment of the benefits, as described above, have been transferred to the pension funds.

B) The Group in Israel makes current deposits in Managers’ Insurance policies, with respect to employees holding management positions. These policies cover the liabilities relating to the severance benefits due to those employees. Based on the employment agreements, subject to certain limitations, these insurance policies belong to the employees. The amounts deposited in respect of the policies, as stated, are not included in the balance sheet since they are not under the management and control of the companies.

C) With respect to the balance of the liabilities not covered based on that described above, a full provision has been recorded in the financial statements.

C. Early retirement

Some of the Group’s employees in and outside of Israel (some after leaving the Group) have a defined pension plans (intra-company) at the time of retirement. In general, based on the terms of the pension plans, the employees are entitled to receive pensions payments based on, among other things, the number of years of their service (in certain cases up to 70% of the latest base salary) or calculated, in certain instances, based on a fixed salary.

Note 18 - Liabilities for Employee Severance Benefits, Net (cont'd)

D. Compensation for unused sick leave

Pursuant to the employment agreement, some of the retiring employees are entitled to a certain payment for unused sick days. The financial statements include a provision for this liability, in accordance with an actuarial estimate based on the present value (using a discount rate of 5%) taking into account the probability of payment of the sick days at the time of retirement, on the basis of past experience.

E. Pursuant to a collective bargaining agreement signed in 1978 with employees of a consolidated company, Sdom 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.

Since the said six-month period has expired and the parties have not yet reached an agreement regarding a new and detailed arrangement on a basis conforming with the requirements of law and the existing judicial decisions, an additional extension of six months was agreed to ending on March 17, 2005. At the present time, the negotiations between the parties are continuing.

F. 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 5% linked to the CPI, in respect of foreign companies – mainly 4.75%. The liability was calculated by the companies on the basis of the assumption that the salaries 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.

G. 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.

Note 18 - Liabilities for Employee Severance Benefits, Net (cont'd)

H. 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 64.

In December 2004, an agreement was signed between the Minister of Finance and the Chairman of the Institute for Coordination of the Economic Organizations, pursuant to which the Government is required to finance the additional cost involved with the raising of the retirement age, as described above, with respect to employees that took early retirement up to December 31, 2003, and their employers will finance the cost of the retirement on a current basis. Pursuant to the agreement, the Government will finance the additional cost of turning those leaving into pension recipients in the pension fund in which they are insured, for men at 65 and for women at 60.

Regarding employees that have not yet retired, the Group companies updated their liabilities covering them in the financial statements.

I. 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.

Note 18 - Liabilities for Employee Severance Benefits, Net (cont'd)

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

b) The net pension expenses recorded on the statement of income for the year ended December 31, 2004 in respect of CPL's pension plan, are composed as follows:

	Year Ended December 31,	
	2004	**2003**
	US$ millions	**US$ millions**
Current service costs	**29**	26
Current interest costs	**55**	48
Expected return on the pension fund assets	**(60)**	(48)
Actuarial losses, net, recognized in the period	**7**	8
Pension expenses, net, for the period	**31**	34

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,	
	2004	**2003**
	US$ millions	**US$ millions**
Actuarial liability as at beginning of the year	**(988)**	(753)
Current service costs	**(29)**	(25)
Current interest costs	**(55)**	(48)
Pension payments	**32**	21
Actuarial gains in respect of the pension liability	**(7)**	(67)
Translation differences	**(58)**	(116)
Actuarial liability for pension payments as at December 31, 2004 (1)	**(1,105)**	(988)
Market value of pension fund assets as at beginning of the year	**814**	587
Expected return on pension fund assets	**60**	48
Employer deposits in the pension fund	**29**	28
Pension payments	**(32)**	(21)
Actuarial gains in respect of pension fund assets	**36**	83
Translation differences	**48**	89
Fair value of pension fund assets as at December 31, 2004 (2)	**955**	814
Actuarial pension liability, net of market value of pension fund assets as at December 31, 2004 [(1)–(2)]	**(150)**	(174)
Deferred actuarial losses as at December 31, 2004	**151**	176
Pension fund assets, net, as included in the financial statements as at December 31, 2004	**1**	2

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

Note 18 - Liabilities for Employee Severance Benefits, Net (cont'd)

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

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

(1) Annual discount rate of 5.5, 5.4% and 5.5% as at December 31, 2004, 2003 and 2002, 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, 2004, 2003 and 2002, 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 3.8%, 3.7% and 3.85% as at December 31, 2004, 2003 and 2002, respectively – based on CPL's experience (that takes into account annual inflation at an assumed rate of 2.89%, 2.77% and 2.35%, as at December 31, 2004, 2003 and 2002, respectively).

Note 19 - Contingent Liabilities, Commitments and Concessions

A. Guarantees

	Consolidated		Corporation	
	2004	**2003**	**2004**	**2003**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**
On behalf of –				
Subsidiaries	**-**	-	**173**	175
Proportionately consolidated companies (2)	**-**	-	**-**	-
Others (1)	**173**	83	**11**	15
Total (*)	**173**	83	**184**	190
(*) Including – Amounts in foreign currency or linked thereto	**173**	83	**184**	190

(1) The amount includes approximately NIS 11 million that 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.

Note 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

A. Guarantees (cont'd)

(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. The Corporation

a. 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.

In August 2004, the claim was summarily dismissed in its entirety by the Court in New York. In December 2004, one of the leading plaintiffs appealed the decision.

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

b. The Document Stamp Tax Law, 1961 applies in Israel (hereinafter – "the Law") to various documents at different rates, pursuant to the type of document and the amount stated therein or not stated therein. In June 2003, the language of Section 15A of the Law, which sets forth the parties required to stamp documents, was amended.

During the year, the Israeli Tax Authorities took a stricter position with respect to enforcement of the Law. The amendment to the Law and the enforcement measures executed by the Tax Authorities, were brought before the Supreme Court, which has not yet handed down its decision on the matter. In addition, based on the legislative trends, it is expected that the Law will gradually be phased out up to its total cancellation in 2008.

The managements of the Group companies estimate that the Group is not expected to have any material exposure stemming from a demand relating to the Law.

Note 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

2. In subsidiaries

A. Israel Chemicals Ltd. (ICL)

1) 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.

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 is 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.

Note 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

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

1) (cont'd)

The Bromine Group estimates 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, ICL is unable to estimate if and to what extent it is exposed to liability in these proceedings and, therefore, no provision has been made in the financial statements.

2) 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 domes 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 $52 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 that 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.

3) 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.

Note 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

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

4) In May 2004, plants in the Ramat Hovav site, including a plant of ICL Industrial Products, were notified of a change in the terms of their license, pursuant to which the plants are required: (a) to construct, no later than July 1, 2006, an independent biological facility on the plant's own premises and as at such date to cease discharging the waste into central facility operated by the Ramat Hovav Industrial Council; (b) to cease, by January 1, 2008, discharging the treated waste into the Council's evaporating ponds and by that date such waste is to be discharged into the plant's own evaporating pond as brine with a salt concentration of 15%; (c) to submit, by June 30, 2007, as required by the Ministry of the Environment, a pilot plan for crystallization of waste, and on December 31, 2008, a plan for treatment of waste using the evaporation and crystallization system based on the pilot tests.

On October 10, 2004, all the plants in Ramat Hovav, together with the Manufacturers' Association of Israel and other companies, filed an administrative petition against the Ministry of the Environment in the Be'er Sheva District Court for cancellation of the aforementioned terms. In the petition, the petitioners claim that the terms were unlawfully and unreasonably determined, since they call for a solution that may not be practicable (or the technological feasibility of which is uncertain) while disregarding the practicable and existing solution of discharging the waste, after treatment, into the Mediterranean Sea via a marine outflow pipe.

On March 3, 2005, the Be'er Sheva District Court approved an agreement between the Ministry of the Environment, the Manufacturers' Association and the plants, pursuant to which the dispute would be transferred to mediation and the legal proceedings would be stayed for 180 days. The issues agreed to be deliberated in the mediation proceeding are: the type of the ultimate solution, the timeframe for its implementation and the parameters deriving from this type of ultimate solution. The petitioning plants agreed to withdraw the part of the petition relating to transition from the joint treatment of waste (which has been applied up to the present time) to the separate treatment thereof on each plant's own premises, and accepted the terms for the independent treatment by each of the plants of its waste. The mediation proceeding does not postpone the dates provided in the additional terms.

At this stage, it is not possible to know with any degree of certainty what the meaning of implementation of the terms by the plant will be if the mediation proceeding is unsuccessful and the terms remain as they presently stand, since the technology required for their implementation is not available and requires research and development.

Note 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

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

5) 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.

6) In February 2004, a subsidiary became aware that the Prosecutor of Environmental Crimes of Catalonia, Spain, initiated a criminal proceeding, in the framework of which a claim 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 from salt mounds, which are a by-product of the potash production, during the course of many years, partly prior to the acquisition of the company. The Court was also requested to issue an order forbidding the continued dumping of the salt. As of the date of the financial statements, no order was issued as above. The Corporation estimates, based on the opinion of its legal counsel, that the probability of such an order, as aforesaid, being issued as this stage, is low.

7) Pending proceedings in connection with the Kishon Stream

The production site of the subsidiary, Fertilizers and Chemicals Ltd. (hereinafter – "Fertilizers"), borders on the Kishon Stream. For many years, wastewater from Fertilizers' plant as well as from municipalities and other plants has been discharged into the Kishon Stream.

Note 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

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

On May 29, 2001, a class action was filed against Fertilizers and other defendants, in the Magistrates Court in Haifa, under the Prevention of Environmental Nuisances Law (Civil Actions), 1992. The State of Israel and many other plants were joined to the action as third-party defendants. The action claims that the defendants polluted the Kishon Stream. The plaintiffs asked the Court to order the defendants to cease the pollution of the Kishon Stream and to restore it to the condition it was in prior to discharge of the waste.

Fertilizers, other defendants and the State of Israel filed motions for summary dismissal of the action on the grounds that, among other things, the State and the other defendants have taken, and presently take, steps to remove and prevent environmental hazards, that currently the discharged waste is not contaminated, and that on under these circumstances there is no basis for a class action pursuant to the above-mentioned law. These motions to dismiss have been heard but no ruling has yet been issued.

The vast majority of the causes of action raised in the claim have not yet been brought before the Supreme Court for resolution. Nevertheless, regarding the above-mentioned action, ICL believes, based on the opinion of its legal counsel, that it has good defenses to these claims and, therefore, it has not included a provision in its financial statements.

During the years 2001 through 2004, six lawsuits were filed against Fertilizers and eight additional defendants (including the State of Israel) in the Haifa District Court by 49 individuals (or their heirs or dependents), most of them fishermen who had worked, according to the claims, in the Kishon's fishing harbor. The plaintiffs claim that the diversion of the watewater into the Kishon caused them to contract cancer (and other diseases). Many plants and government entities were also joined as third-party defendants to these lawsuits. Because these claims are for physical injury, the plaintiffs are not required to specify the amount of damages they are seeking. The plaintiffs estimate that their damages total NIS 153 million as at the date the claims were filed, plus punitive damages. After the claim was filed, two plaintiffs withdrew, and their claims were removed (the total amount of damages they sought was NIS 3.6 million).

These cases are in their initial stages and the hearing of testimony has not yet commenced (excluding testimony provided in preliminary hearings) Consequently, Fertilizers does not have all the factual information regarding the plaintiffs and the nature of their alleged exposure. These actions involve highly complex fact patterns spanning decades and involving over one hundred parties (plaintiffs, defendants and third parties), and constitute a precedent-setting case, both in terms of the nature of the claim and the division of the responsibility among the defendants and third parties.

Note 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

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

It can be said, with the necessary caution and subject to that stated above, that Fertilizers has good defenses to these claims, based on opinions of experts submitted on behalf of Fertilizers and the other defendants. These defenses include (a) a higher cancer rate is not apparent among the fishermen, (b) most of their ailments can be attributed to personal risk factors (primarily the fact that over 90% of the plaintiffs were smokers) as well as natural illness and (c) the circumstances of the claimed exposure are not known to cause the plaintiffs' diseases.

Notwithstanding that stated above, in accordance with the evaluation of its legal advisors, and in light of the factual and legal complexity of these proceedings, the initial stage in which they are pending, and the multitude of parties involved, ICL is unable to estimate its exposure with respect to these claims and no provision has been recorded in its financial statements.

In April, June, and July 2004, three lawsuits were filed against four defendants in the Haifa District Court by approximately 180 plaintiffs – 94 former soldiers, bereaved families, heirs and dependants (combined with an earlier claim by a former soldier and his wife), claiming that contact with toxic substances in the Kishon Stream caused them severe physical injury. The soldiers claim total damages of approximately NIS 266.6 million as damages stated in monetary terms (special/general damages), approximately NIS 84.2 million in dependant damages (some of which overlap with the special damages), and NIS 141 million in punitive damages (the amounts as filing date of the claims), in addition to other primary damages not stated in monetary terms in the claims (including loss of future earnings, medical expenses, in some cases loss of earnings in years lost from work etc.). The defendants joined third parties including Fertilizers as well as many plants and government entities, including the State of Israel.

These cases are in the initial pre-hearing stages. Consequently, the factual information regarding the plaintiffs and the nature of their alleged exposure is mostly not known to the defendants and the third-party defendants, including Fertilizers. In addition, as at the date of this report, the report Fertilizers' experts had not yet been presented. These actions involve highly complex fact patterns spanning decades and involving hundreds of parties (plaintiffs, defendants and third parties), and constitute a precedent-setting proceeding, both in terms of the nature of the claim and the division of responsibility among the defendants and third parties. It is likely, with the necessary caution and subject to the information presented above, that some of Fertilizers' defenses to the claims described above will also serve to defend it with respect to these claims. Notwithstanding that stated above, in accordance with the evaluation of its legal advisors, and in light of the factual and legal complexity of these proceedings, the initial stage in which they are pending, and the multitude of parties involved, ICL is unable to estimate its exposure with respect to these claims and no provision has been recorded in its financial statements.

Note 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

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

Between 2001 and 2004, two lawsuits were filed against Fertilizers and eleven additional defendants (including State agencies) in the Haifa District Court by 71 boat and ship owners seeking compensation for equipment damage from corrosion allegedly caused by the vessels coming in contact with the waters of the Kishon Stream. Another lawsuit was filed against defendants, including Fertilizers, by Israel Shipyards claiming that corrosion damage to its dry dock and its locks was caused from the Kishon Stream's waters. In these claims, notices to third-party defendants were served on additional parties. For purposes of calculating fees, the damages claimed were estimated to total approximately NIS 30.2 million as at the date of the lawsuits were filed, in addition to punitive and future damages.

These cases are in the initial pre-hearing stages. In the ship damage action, a preliminary investigation regarding the amount of the damage was conducted, after which the Court decided that it would first consider the issue of establishing a casual connection between the wastewater discharged by the defendants and its ability to cause corrosion as a general principle (without hearing testimony of plaintiffs). In addition, the Court was authorized by some of the parties to rule on a settlement on the issue of the damages (at this stage Fertilizers has not joined this arrangement). Fertilizers claims that it acted in accordance with appropriate permits issued by the authorized agencies and that the substances it discharged into the Kishon Stream did not cause the alleged damage. Fertilizers believes, based on the opinion of its legal counsel, that it has good defenses to these claims. Notwithstanding that stated above, in light of the initial stage in which these claims are pending, and the numerous parties involved, Fertilizers is unable to estimate its exposure in respect of these claims and no provision has been included in its financial statements.

8) 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 ICL, obligating them, among other things, 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.

Note 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

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

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 obligated 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 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

2. In subsidiaries (cont'd)

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

9) Heavy flooding in the stream channels that occurred on October 29, 2004, caused the flooding of a large area of premises of some of DSW's facilities in Sdom and entry of water along with large-scale erosion in the evaporating pools at the Dead Sea.

As a result of the flooding, work at the power station and production at some of DSW's facilities in Sdom were halted for several days. Due to the floods, DSW suffered property damage and lost revenues. At this stage, DSW is not able to estimate the full amount of the damages, however, in the estimation of DSW's management there is insurance coverage for the damages and DSW's exposure is limited to the amount of the insurance deductible, in the gross amount of $12.5 million. DSW has recorded a provision in this amount on its books.

10) A number of additional claims are pending against ICL and various of its subsidiaries in a total amount of up to $10 million, regarding which provisions have been included in the books of ICL and the subsidiaries in the amount of $5 million. In addition, in respect of $4 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 $2 million as at December 31, 2004, 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.

B. ZIM Integrated Shipping Services (hereinafter – "ZIM")

ZIM and its subsidiaries are parties to various arbitration proceedings and lawsuits, in an aggregate amount of $2.6 million. ZIM included a provision in its books, in the amount of $0.4 million, which in the opinion of its legal advisors it may ultimately be required to pay in respect of the said proceedings and claims.

Note 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

3. In affiliated companies

a. Oil Refineries Ltd. (hereinafter – ORL)

1. Claims relating to the Kishon Stream

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 them. Due to the early stage of the proceedings, it is not possible to predict the claim's chances of success.

2) 93 plaintiffs, former solders in the Israeli Defense Forces, filed claims against ORL and three additional parties, in respect of bodily injury they allege to have sustained as a result of their activities in the framework of their military service in the Kishon Stream, after their request to join the lawsuit filed by the navy man was rejected. One of the defendants filed third-party notifications against ORL and 3 of its investee companies. Due to the early stage of the proceedings, ORL believes, based on its legal advisors, that it is not possible to predict the claim's chances of success.

3) ORL and 3 of its investees are among the 10 defendants being sued by 49 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 stream, which caused the plaintiffs to contract cancer. The amount of the suit is not final 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.

4) 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 Prevention of Environmental Nuisances Law (Civil Autions), 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. Requests have been filed to cancel the claim and the third-party notification filed against ORL and, therefore, 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 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

B. Claims (cont'd)

3. In affiliated companies

a. Oil Refineries Ltd. (hereinafter – ORL) (cont'd)

1. Claims relating to the Kishon Stream

5) There are additional claims against ORL, its investee companies and other parties relating to the Kishon Stream. The amounts of the claims total NIS 30 million. Due to the early stage of the proceedings, it is not possible, in ORL's estimation, based on its legal advisors, to predict the claims' chances of success.

2. Other claims

Various claims have been filed against ORL, its investee companies and other companies, the cost of which could reach NIS 259 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. Tower Semiconductor Ltd. (hereinafter – "Tower")

Regarding a claim against Tower – see Section 19B1.

C. Commitments

1. The Corporation

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

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

Note 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

C. Commitments (cont'd)

2. Israel Chemicals Ltd.

a. As at December 31, 2004, ICL and its subsidiaries have commitments in the amount of $110 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 9 years after the balance sheet date.

b. Certain subsidiaries of ICL have commitments to suppliers to purchase fixed assets. As at December 31, 2004, there are commitments to invest $62 million in fixed assets.

c. The mining rights of CPL are based on 113 mine leases and licenses for production of various minerals, in addition to a large number of priority rights and easement rights from private owners of the lands under which CPL operates or relating to mining under the North Sea – in the British Crown. All of the periods of the leases, licenses, priority rights and easement rights are valid up to 2015–2038.

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.

e. Certain subsidiaries of ICL have commitments to pay royalties to the Government of Israel. The royalties are at the rate of 2% to 4% of the proceeds received from the sale of products regarding which the Government of Israel participated in the related research and development by way of grants. These commitments are not to exceed the rate of 100% – 150% of the total dollar amount of the grants received by the subsidiaries (in respect of products manufactured in Israel). On the date of the receipt of the participation from the Government of Israel, the success of the development of the projects was not yet assured. In the event a project that was partially financed by Government participation involving the payment of royalties, is not successfully completed, the ICL Group is not required to pay any royalties to the Government. As at December 31, 2004, the maximum amount of the royalties that the ICL Group may ultimately have to pay is $13 million.

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

g. Desalinization undertakings of I.D.E.:

1) I.D.E. signed a BOT agreement for the financing, planning, construction, operation and transfer to the State of Israel of a salt desalinization plant in Ashdod with a total production of 100 million cubit meters of desalinized water per year. The period of the agreement is up to 2027.

2) I.D.E. has signed a BOT agreement for a ten-year period with the Water Authority of Cyprus. In the framework of the agreement, the Partnership sells water based on the "take or pay" principle in the total scope of 46,500 million cubit meters of water per day. The period of the agreement is up to 2011.

Note 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

C. Commitments (cont'd)

3. ZIM

Undertakings in respect of operating leases of ships and related equipment (for a period exceeding one year from December 31, 2004):

A) 1. The contractual leasing fees for the upcoming years based on the existing rates as at December 31, 2004:

	Interested parties	Others	Total
	NIS millions	NIS millions	NIS millions
2005	125	170	295
2006	98	133	231
2007	76	93	169
2008	58	85	143
2009 and thereafter	162	269	431
	519	750	1,269

The lease fees are mainly in dollars.

2. During the year, ZIM signed agreements for the sale 4 ships that entered into effect upon delivery of the ships in June–November 2004. The ships will be leased by ZIM under operating leases for periods of 5–6 years with an option to extend the lease for two periods of one year each. The expected lease rentals with respect to these ships are included in A., above.

B) ZIM signed agreements for the sale 3 ships that entered into effect upon delivery of the ships in January 2005. The ships will be leased by ZIM under operating leases for periods of 5–6 years with an option to extend the lease for two periods of one year each.

The expected lease rental fees with respect to these undertakings (without the option period) are shown below:

	NIS millions
2005	19
2006	19
2007	17
2008	16
2009 and thereafter	25
	96

Note 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

C. Commitments (cont'd)

3. ZIM (cont'd)

C) ZIM signed agreements, with interested parties, for the acquisition of 12 container ships – 8 container ships having a capacity of 4,250 containers each, which are scheduled to be delivered to ZIM during 2006 and 2007 (hereinafter – "the Eight Ships") and 4 container ships having a capacity of 6,350 containers each, which are scheduled to be delivered to ZIM during 2008 and 2009 (hereinafter – "the Four Ships"). Out of the Eight Ships, ZIM will acquire 2 ships for $54.5 million each, will lease 2 ships for ten years, at a lease rental fee of $23,000 per day, and will acquire 4 ships in a joint transaction (in equal shares) between ZIM and Ofer Shipping Ltd. (interested parties in ZIM), for $54.5 million each, which will be leased to ZIM in exchange for a lease rental fee of $23,000 per day. Out of the Four Ships, ZIM will acquire 2 ships for $74.3 million each, and will lease 2 ships for ten years, at a lease rental fee of $31,500 per day. The total cost of the ships is $367 million.

The expected lease rental fees (including the operating component) to interested parties in the upcoming years with respect to these transactions are shown below:

	NIS millions
2006	7
2007	22
2008	42
2009 and thereafter	495
	566

D. Concessions

1. Subsidiaries

a. Dead Sea Works Ltd.

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, with a right of first refusal for the period after expiration of the concession.

In return, DSW pays royalties to the Government of Israel, calculated at the rate of 5% of the value of the products at the factory gate, less certain expenses as well as lease fees.

Note 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

D. Concessions (cont'd)

1. Subsidiaries (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 quantity in excess of one million tons of chloride potash during the period that preceded the date of the letter as well as for the period from the date of the above-mentioned letter 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.

By virtue of the Concession Law, DSW granted a sub-concession to the Brome Group for production of bromine and Dead Sea bromine compounds that also expires in 2030.

The total amount of royalties paid to the Government in 2004, 2003 and 2002 amounted to $21 million, $18 million and $18 million, respectively.

b. Dead Sea Magnesium Ltd.

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. Commencing with 2006, the Government may reexamine the formula for calculating the royalties in respect of the magnesium. In the years 2004, 2003 and 2002, Dead Sea Magnesium Ltd. paid royalties to the Government of Israel in the amounts of $221 thousand, $215 thousand and $257 thousand, respectively.

c. Rotem Amfert Negev Ltd.

Rotem Amfert Negev Ltd. (hereinafter – "Rotem") has mined phosphates in Israel's Southern region for more than 50 years. The mining is performed under concessions for mining phosphates that were granted from time to time (sometimes retroactively) by the State pursuant to the Mining Ordinance. In June 2002, Rotem received three concessions under the signature of the Minister of National Infrastructures at that time, for Rotem Field (valid from 2002 up to the end of 2021), Zafir Field (valid up to the end of 2021) and Effa Field (valid up to the end of 2013). These concessions replaced a prior concession from 1995,wherein a permit from the Israel Lands Administration (hereinafter – "the Administration") was also involved, which was issued in respect of Rotem Field and Zafir Field, with minor boundary changes vis-à-vis the concessions from 2002, which was valid up to April 2005. In respect of mining of the phosphate, Rotem is required to pay the State royalties based on the calculation formula provided in the Mining Ordinance.

Note 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

D. Concessions

1. Subsidiaries (cont'd)

c. Rotem Amfert Negev Ltd. (cont'd)

The validity of the concessions received by Rotem was conditioned on signing mining authorization agreements (hereinafter – "the Authorizations") between Rotem and the Administration for the concession sites. Rotem signed a final and agreed-to version of the Authorizations and, in September 2003, made a payment to the Administration, based on its demand and in accordance with the terms of the Authorizations.

Up to now, the Administration has not returned signed copies of the Authorizations to Rotem, thereby acting in accordance with the demands of the Ministry of Finance, which stem from a dispute regarding the amount of royalties Rotem is required to pay, however it has acted in accordance therewith and, in Rotem's estimation, based on the opinion of its legal advisors, it is bound by them.

In 2004, 2003 and 2002, Rotem paid royalties of $1,251 thousand, $272 thousand, and $284 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 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.

Note 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

D. Concessions (cont'd)

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

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 that 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, and 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.

Upon expiration of the original concession and in accordance with the arrangement, ORL began paying license fees under the arrangement. ORL recorded a provision in the amount of NIS 56 million in respect of 2004.

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 Israel 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.

Note 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

D. Concessions (cont'd)

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

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 date of the arrangement (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 2003, 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). The Minister of the Interior gave notice that he intends to accept the Committee's recommendations. ORL filed a petition with the Supreme Court sitting as the High Court of Justice against this decision of the Minister of the Interior and requested interim orders that will prevent the taking of any action that is intended to implement or advance implementation of the Committee's recommendations. The State, for its part, requested an extension of time to submit its position regarding the petition and the interim orders, of up to 45 days after entry of the new Minister of the Interior into his position, in order to allow him time to study the subject matter of the petition. Up to the publication date of the report, the State's response has not yet been submitted. Upon inclusion of lands belonging to ORL within the boundaries of any local authority, it is expected that ORL will begin paying Municipal Tax for the Haifa refinery as well. In the period of the report, ORL received a charge for Municipal Tax relating to part of 2004 and 2005. Pursuant to a legal opinion received by ORL, as at the signing date of the financial statements ORL was not subject to an obligation to pay Municipal Tax in accordance with the charge notification it received. In 2003, 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 that 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.

Note 19 - Contingent Liabilities, Commitments and Concessions (cont’d)

D. Concessions (cont’d)

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

In addition, ORL declared that it is aware that the Government and 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 Israel Corporation (regarding this appendix, see the expanded discussion below).

On June 4, 2003, 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 Director of the Government Companies Authority, ORL, 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 that will prevent realization of the arrangement up to the time of the decision on the petition.

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 Israel Corporation in ORL and to prepare a new agreement or revisions to the arrangement.

On January 19, 2004, 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 March 28, 2004, May 5, 2004 and July 12, 2004, the Government requested and received additional extensions from the Court for provision of its position regarding the petition.

Note 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

D. Concessions (cont'd)

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

On August 9, 2004, the Government submitted a notice to the Court wherein was stated, among other things, that on July 29, 2004, the Ministerial Committee for Society and Economic Matters (Social and Economic Cabinet) made a decision determining the manner in which the split up of ORL and its privatization are to be executed, which imposes on the Accountant General the responsibility to amend "Appendix C of the Agreement", in accordance with the principles detailed in the decision (for the sake of good order it is noted that the "Agreement" is the arrangement signed on December 2, 2002, between Israel Corporation and ORL and the Government, as detailed at the beginning of this note, whereas "Appendix C of the Agreement" was signed between Israel Corporation and the Government relating to the relationship between the shareholders of ORL) (for detail regarding the decision, see below).

The Petitioner received permission from the Court and, on November 14, 2004, it submitted an amended petition based on, among other things, the State's aforesaid notification.

The responses of the respondents to the amended petition have not yet been submitted (the State's response is scheduled to be submitted at the end of March 2005, whereas regarding the responses of ORL and Israeli Corporation, the Court determined that they shall be submitted 14 days after submission of the State's response).

In Appendix C to the arrangement, dated December 2, 2002, regarding the matter of ORL's concession, an appendix which as noted was signed by the Government and Israel Corporation, 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 Israel Corporation's shares in ORL or, in the case of a split-up of ORL, optional acquisition by Israel Corporation of one of the split-up two refineries. In this case, Israel Corporation will pay to the Government or receive therefrom, the difference between the relative value of Israel Corporation's share in ORL (26%) and the value of the split-up refinery that it shall choose, based on the valuations performed pursuant to the arrangement.

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

In June 2003, the two aggregate valuations were submitted. One from an appraiser on behalf of 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 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

D. Concessions (cont'd)

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

On August 4, 2003, Israel Corporation notified the Government that in light of the fact that the negotiations with the Government regarding participation of Israel Corporation in the split-up have not been completed, and due to the dates provided in the Apendix 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 Israel Corporation shall sell to the Government or to a party which the Government shall instruct, all ORL shares owned by 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, 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 that shall not exceed two years from June 6, 2003.

As a result of the recommendations of the inter-office team appointed by the Government, the Committee of Ministers for Social and Economic Matters made the following decision on July 29, 2004 (hereinafter – "Committee of Ministers' Decision Dated July 29, 2004"): "Further to Government Decisions No. 126, dated August 22, 1999, No. 2796, dated November 25, 2002, and No. 787, dated September 15, 2003, the decision of the Committee of Ministers for Privatization Matters MH/2, dated October 20, 1999, the agreement signed between the Government and Israel Corporation Ltd. (hereinafter – "Israel Corporation") and Oil Refineries Ltd. (hereinafter – "ORL") dated December 2, 2002, which has not yet received all the required approvals (hereinafter – "the Agreement"), as follows:

1. To execute the split-up and privatization of the refineries during the years 2004–2005, in accordance with the outline detailed below:

   1.1 In the first stage, the refinery in Ashdod will be sold as activities, or in a private sale as a subsidiary or a separate company with an ownership structure identical to the ownership of ORL, and immediately thereafter a public issuance of ORL will be made.

   1.2 The refinery in Ashdod will be sold as a "going concern". In the framework of the process of sale of the refinery in Ashdod the purchaser will undertake to operate the refinery for a period of not less than 10 years from the acquisition date.

   1.3 If necessary, principles for reciprocal relationships will be formulated during the split-up process that will apply between the refineries, including with respect to sale of intermediate products and feedstock materials between them, and between them and the petrochemicals industry.

Note 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

D. Concessions (cont'd)

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

2. To impose on the Accountant General in the Ministry of Finance the responsibility of amending Appendix C to the Agreement in the framework of a new agreement with Israel Corporation, which will be approved in accordance with Section 16 of the Agreement, such that Sections 3, 4, and 5 of Appendix C to the Agreement will be amended and superseded pursuant to the principles attached as Appendix A to the Government's decision, and the rest of the Sections will remain unchanged, all of this up to October 15, 2004. In the framework of amendment of Appendix C, the following principles, among others, will be expressed:

2.1 Israel Corporation will sell together with the Government all the holdings of the refineries.

2.2 The accountings with Israel Corporation shall be made after completion of privatization of ORL, as will be detailed in the new agreement that amends Appendix C to the Agreement.

2.3 The consideration the Corporation is to receive for its holdings in ORL will be between NIS 480 million and NIS 570 million. The amounts will bear interest and linkage differences up to December 31, 2003, and from this date the consideration will be linked to the rate of return on ORL's capital. The consideration is subject to certain adjustments.

3. To impose on the Supervisor of the Government Companies Authority to submit to the Ministerial Committee for Privatization, no later than October 15, 2004, a proposal for split-up and privatization of the refineries on the basis of the outline as stated in Section 1, above. The process of split-up and sale of the refineries will be conducted and executed by the Government Companies Authority as is customary, including by means of mechanisms it determines for purposes of execution of the split-up and advancement of the privatization. In addition, provisions and limitations were determined in the privatization decision regarding ownership of the split-up refineries, among other things, as detailed in notification of the Supervisor of Restrictive Business Practices, as stated in Section 5, below. Commencing from the date that will be determined in the privatization decision, ORL will move to operating based on a separate optimization model for the two refineries, as will be detailed therein.

4. In the framework of the split-up and privatization process, issues relating to ORL employees will be handled, and to the extent necessary this will be reflected in the privatization decision.

5. To record the notification of the Supervisor of Restrictive Business Practices regarding his position with respect to matters within the scope of his responsibility in the area of regulation of the fuel industry, which are attached as Appendix B to the Government's decision. In addition, to record the notification of the Minister of National Infrastructures regarding his intention to enact the Fuel Industry Law, which will deal with, among other things, arrangement of the regulation in various sectors of the fuel industry.

Note 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

D. Concessions (cont'd)

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

6. To impose on the Minister of Finance and the Minister of National Infrastructures to amend the Order for Supervision of Prices of Goods and Services, 1992, no later than October 15, 2004, in such a manner that after the split-up and privatization of the refinery in Ashdod, the supervision of refined oil products at the refinery gate will be removed, except for supervision of the prices of refined oil products where more than 50% of their total consumption in the local market is sold by one of the refineries and, at the same time, less than 15% of their total consumption in the local market is sold by the other refinery. After removal of the supervision as stated, re-imposition of supervision of the price of any refined oil product at the refinery gate will be examined in light of the competitive conditions existing in the refining sector in the fuel industry, and in accordance with all law.

7. After sale of the refinery in Ashdod, in principle there is nothing preventing operating of a refinery in the area of production of electricity and desalination of water, in accordance with and subject to all law.

8. If Israel Corporation does not agree with the principles stated in Section 2 – to cancel the agreement, and to take unilateral steps available to the Government in connection with split-up and privatization, among other things in light of the Government's position regarding ownership of ownership of ORL's in the area of the concession.

Regarding this matter, see above also the report regarding the petition filed against the agreement dated December 2, 2002.

On December 26, 2004, the Committee of Ministers for Privatization Matters made a privatization decision relating to ORL (hereinafter – "the Privatization Decision"). The Privatization Decision provided, among other things:

"Further to Government Decision No. 126, dated August 22, 1999, the decision of the Committee of Ministers for Privatization Matters MH/2, dated October 20, 1999, the Government's Decision No. 2796, dated November 25, 2002, the agreement signed between the Government and Oil Refineries Ltd. (hereinafter – "ORL") and Israel Corporation Ltd. (hereinafter – "Israel Corporation") dated December 2, 2002, including Appendix C thereof (which is to be amended in accordance with and subject to the decision of the Social and Economic Cabinet) subject to receipt of all the required approvals (hereinafter – "the Agreement"), to the Government's Decision No. 787, dated September 15, 2003, the decision of the Ministerial Committee for Society and Economic Matters (Social and Economic Cabinet) No. HC/107 dated July 29, 2004 (hereinafter, above and below – "the Social and Economic Cabinet's Decision") – to privatize ORL as detailed below:

Note 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

D. Concessions (cont'd)

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

1. Split-Up

ORL shall be split into two companies, such that a subsidiary of ORL shall be established that will be called "ORL Subsidiary – Ashdod Ltd.", in accordance with the conditions detailed in the document attached as Appendix A to this Decision (hereinafter – "ORL Ashdod"), in such a manner that agreements will be signed pursuant to which assets, rights, employees and liabilities as will be decided, which relate to the activities of the oil refinery in Ashdod and as will be determined in accordance with Section 12(D), shall be transferred to ORL Ashdod (hereinafter – "the Split -Up").

The above-mentioned agreements shall not be executed and assets, rights, liabilities and employees relating to the activities of the oil refinery in Ashdod shall not be transferred except subject to and on the date of conclusion of the sale of ORL Ashdod as detailed below.

2. Sale of ORL Ashdod

2.1 After execution of the split-up, all the shares of ORL Ashdod, including the share held by the State, shall be sold in a private sale, as a single unit, to an investor and/or group of investors from Israel and/or from overseas (hereinafter – "the Private Sale").

2.2 The Private Sale shall be executed on, among others, the following conditions:

A. The government companies (as will be defined in the sale procedure) shall not be permitted to participate in the Private Sale process, directly or indirectly, alone or together with others, all as will be determined in the Private Sale procedure.

B. The purchaser of ORL Ashdod shall declare that it acquires ORL Ashdod as a "going concern" and shall undertake to act based on its holdings in ORL Ashdod such that the activities of ORL Ashdod shall continue for a period of at least ten years from the sale date.

C. The sale process shall be administered by the Government Companies Authority (hereinafter – "the Authority"), as is customary in other private sale processes of State shares in government companies conducted by the Authority, and shall be executed by ORL and the Authority, in accordance with principles to be determined by the Authority and with its approval, based on, among other things, valuations on behalf of the Authority.

Note 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

D. Concessions (cont'd)

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

3. Sale of ORL

3.1 After completion of privatization of ORL Ashdod pursuant to Section 2, above, and prior to the issuance as described in Section 3.2, below, the Authority shall report to the Committee of Ministers with respect to the progress of the privatization process.

3.2 Immediately after completion of the privatization of ORL Ashdod pursuant to Section 2, above, all of the State's holdings in ORL and all of the Israel Corporation's holdings in ORL shall be sold, by means of a tender/tenders to the public, separately or together with fundraisings for the company, through the issuance of securities to the public pursuant to a prospectus on the Tel-Aviv Stock Exchange (hereinafter – "the Issuances") and/or through a private sale of packages of shares in and outside of Israel. The Issuances shall be made in the scope, allocation, and on the dates to be determined by the Authority based on, among other things, the situation in the capital market.

3.3 The Issuances shall include shares and/or convertible securities, as will be determined by the Authority.

3.4 The Committee of Ministers provides that, under the circumstances of the matter, application of separate processes for handling a request to allow publication of a prospectus in accordance with Section 12(D)(1) of the Securities Law, 1968, is important to advancement of privatization of the company.

3.5 The process of sale of ORL as stated above conducted by the Authority, based on, among other things, valuations on behalf of the Authority."

The Decision also set forth provisions in connection with company employees in the Privatization Process, the fuel administration and regulation, essential interests of the State and guidelines for the Authority's activities in execution of the Privatization.

In the assessment of ORL, the privatization process of ORL by means of a split-up, if executed, 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 and the results of its operations. The Management of Israel Corporation adopts ORL's evaluation.

Note 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

D. Concessions (cont'd)

Further to the decision of Committee of Ministers dated July 29, 2004, in the framework of which amendment of certain provisions in the original Appendix C to the ORL agreement was requested (which as stated is an appendix that was signed between the Government and Israel Corporation only regarding the matter of the a split-up and privatization of ORL and which covered their legal relationships as shareholders in ORL) and the continued negotiations carried on between Israel Corporation and the Government, Israel Corporation gave notice to the Government on January 1, 2005 (through the Ministry of Finance) that it consents to amendment of the original Appendix C to the ORL agreement based on the principles, as they were determined in the Committee of Ministers' Decision Dated July 29, 2004 (hereinafter – "the Amended Appendix C"). In this connection, Israel Corporation gave notice in an Immediate Report dated January 10, 2005, that shortly after the signing of the Amended Appendix C it will send out another Immediate Report with respect thereto.

E. Liens

The Corporation and the headquarters companies

1. As security for loans from banks, the Corporation placed the following liens:

   – As security for loans in the amount of NIS 806 million, the Corporation placed liens on shares of ICL it holds at the rate of 22% of ICL's share capital.

   – As security for loans in the amount of NIS 258 million, the Corporation placed liens on shares of ZIM it holds at the rate of 48.6% of ZIM's share capital.

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 financing their purchase. Among others, the Corporation undertook that:

   – The minimum shareholders' equity will not drop below $300 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.

3. As security for loans in the amount of NIS 668 million received by the headquarters companies, the headquarters companies placed liens on shares of ICL at the rate of 20.5% of ICL's share capital.

Note 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

E. Liens (cont'd)

Consolidated

ICL

1. Some of the companies in the ICL Group undertook towards certain Israeli and foreign banks in respect of loans and other credit received from them not to create pledges (a "negative pledge"). 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).

   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 155 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 that derive from or accompany such receivables, to the benefit of the company that purchased the receivables.

Note 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

E. Liens (cont'd)

Consolidated

ZIM

1. Liens have been placed on the fleet of ships and related equipment, including revenues deriving from the ships and the insurance rights covering the ships and the containers, land, buildings, equipment and computers in order to secure short-term credit from banks, other long-term loans and liabilities and bank guarantees.

2. The terms of the long-term and short-term loans received by ZIM from banks and others, the balance of which as at December 31, 2004 is $161.5 million include a requirement, among others, to comply with the following financial covenants:

   a) The tangible shareholders' equity shall not drop below 18.5% of the total assets. Tangible shareholders' equity is defined as shareholders' equity including paid-up share capital, undistributed retained earnings, reserves and the total provisions for deferred taxes, less deferred expenses and intangible assets, and less guarantees issued by ZIM as collateral for indebtedness of interested parties.

   b) The ratio of EBITDA to debt service shall not drop below 1.0. Debt service is defined as the amount of financing expenses, current maturities of long-term loans from banks and others, less cash and cash equivalents and short-term deposits.

      In computing this ratio, current liabilities less cash, cash equivalents and short-term deposits shall not be less than zero.

   c) The ratio of shareholders' equity to total assets shall not fall below a rate of 11%.

   d) The ratio of operating cash flows to net financing expenses shall not fall below a rate of 1.2.

   e) The ratio of operating earnings to net financing expenses shall not fall below a rate of 1.2.

   f) The ratio of short-term and long-term loans from banks and others (including current maturities) to shareholders' equity plus minority interest and deferred taxes shall not exceed 4.5.

   g) The ratio of current operating earnings less operating expenses and general and administrative expenses (less administrative depreciation) to net financing expenses together with current maturities of long-term loans from banks and others and less cash and cash equivalents, shall not fall below 1.0.

Note 19 - Contingent Liabilities, Commitments and Concessions (cont'd)

E. Liens (cont'd)

Consolidated (cont'd)

ZIM (cont'd)

h) The ratio of EBITDA to debt service shall not fall below 1.0. EBITDA is defined as income from operations less operating, general and administrative expenses, excluding the provision for employee severance pay and with the addition of depreciation (as reflected in the cash flow statement). Debt service is defined as interest expense, excluding amortization of the discount in respect of loans having subsidized interest, and excluding losses on financial transactions and exchange rate differences, with the addition of current maturities of long-term loans from banks and others.

As at the balance sheet date, ZIM was in compliance with the financial covenants detailed above.

Note 20 - Shareholders' Equity

A. Composition of Share Capital as at December 31, 2004 and December 31, 2003

	Authorized	Issued and paid-up	Issued and paid-up
		2004	2003
	NIS thousands	NIS thousands	NIS thousands
Ordinary shares of NIS 1 par value each	160,000	6,994	6,914

B. Share Issuance

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.

Subsequent to the balance sheet date, 154,210 options were exercised for 154,210 shares of the Corporation.

Note 20 - Shareholders' Equity (cont'd)

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 made a request to 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. Corporation Shares held by a Subsidiary

In the year of account H.L. Management and Consulting (1986) Ltd., sold the balance of the Corporation's 19,249 ordinary shares of NIS 1 each, in respect of exercise of options by the employees, for a net consideration of NIS 16 million.

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.

Note 20 - Shareholders' Equity (cont'd)

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

1) (a) (cont'd)

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 that 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.

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.

Note 20 - Shareholders' Equity (cont'd)

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

(c) During the year of account, the Corporation's CEO exercised his remaining 16,367 options for 12,784 ordinary shares of NIS 1 par value. In addition, Corporation employees exercised 2,000 options for 1,421 ordinary shares of NIS 1 par value.

2) (a) 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").

Upon exercise of the options, the offerees will be entitled to an amount of shares to be determined according to the value of the benefit component as at the date of the exercise, according to the difference between the price per Corporation share on the Tel-Aviv Stock Exchange (hereinafter – "the TASE") and the exercise price of each option. The shares 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 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 the options expire two years after the beginning of the exercise period. Principles were also provided for a case where the employer–employee relationship between the Corporation and the employees comes 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 273.59 per share).

The exercise prices of the second and third portions are NIS 198.78 and NIS 273.59, respectively.

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

(b) During the year of account, Corporation employees exercised 20,771 options for 14,980 ordinary shares of NIS 1 par value.

As at the balance sheet date, there are 11,883 unexercised options.

Note 20 - Shareholders' Equity (cont'd)

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

3) On March 28, 2005, the Corporation's Board of Directors approved a compensation plan for employees and officers by means of an issuance of shares (hereinafter – "the Plan"). Pursuant to the Plan, 1,863 shares were issued to the Corporation's CEO and 2,428 shares were issued to employees and officers of the Corporation and the subsidiaries. Based on the approval issued by the Assessing Officer, the shares issued pursuant to the plan are subject to the provisions of Section 102 of the Income Tax Ordinance, under the ordinary income track providing for issuance of shares through a trustee. The shares are restricted in the hands of the trustee until December 31, 2006.

Note 21 - Sales, Shipping and Services

			Consolidated
	2004	**2003**	**2002**
	NIS millions	**NIS millions**	**NIS millions**
Revenues from shipping and shipping-related services (1)	**11,184**	-	-
Revenues from other sales and services	**12,315**	10,101	9,365
	23,499	10,101	9,365
(1) From affiliated companies	**11**	-	-

Note 22 - Cost of Sales, Shipping and Services

A. Composition

			Consolidated
	2004	**2003**	**2002**
	NIS millions	**NIS millions**	**NIS millions**
Payroll and related expenses	**2,090**	1,751	1,538
Manufacturing, operating expenses and outside contractors	**3,188**	2,322	2,148
Materials and merchandise	**2,933**	2,293	2,108
Depreciation and amortization	**958**	634	638
Expenses related to handling of cargo	**4,502**	-	-
Ship leasing fees	**1,742**	-	-
Fuel and oil	**1,084**	-	-
Agents' commissions and other	**1,673**	-	-
	18,170	7,000	6,432

Note 22 - Cost of Sales, Shipping and Services (cont'd)

B. Detail by type of revenue

			Consolidated
	2004	**2003**	**2002**
	NIS millions	**NIS millions**	**NIS millions**
Shipping and shipping-related services	**10,078**	-	-
Sales and other services	**8,092**	7,000	6,432
	18,170	7,000	6,432

Note 23- Selling, Transport and Marketing Expenses

			Consolidated
	2004	**2003**	**2002**
	NIS millions	**NIS millions**	**NIS millions**
Transport and insurance	**1,398**	1,183	1,025
Payroll and related expenses	**249**	231	206
Commissions	**79**	69	78
Advertising	**31**	26	26
Depreciation and amortization	**14**	17	20
Other	**154**	128	127
	1,925	1,654	1,482
Including expenses to affiliated companies	**-**	58	40

Note 24- General and Administrative Expenses

			Consolidated			Corporation
	2004	**2003**	**2002**	**2004**	**2003**	**2002**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Payroll and related expenses	**593**	281	248	**1**	3	1
Bad and doubtful debts	**6**	-	12	**-**	-	-
Depreciation and amortization	**56**	40	37	**-**	-	-
General expenses	**282**	144	118	**8**	1	1
Total	**937**	465	415	**9**	4	2

Note 25 - Financing Expenses, Net

	Consolidated			Corporation		
	2004	**2003**	**2002**	**2004**	**2003**	**2002**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
In respect of:						
Long-term liabilities	**309**	163	327	**53**	41	65
Marketable securities	**(50)**	(116)	31	**-**	-	-
Long-term loans granted	**4**	4	(6)	**-**	-	(8)
Debentures and convertible debentures	**23**	48	11	**22**	14	14
Short-term financing and other expenses	**61**	18	(4)	**1**	25	-
	347	117	359	**76**	80	71

Note 26 - Other Income (Expenses), Net

	Consolidated			Corporation		
	2004	**2003**	**2002**	**2004**	**2003**	**2002**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Gain (loss) from disposal of investments in investee and other companies	**256**	52	(19)	**42**	-	-
Gain (loss) from disposal of fixed assets	**305**	(8)	1	**-**	-	-
Provision for decline in value of investments and assets	**(98)**	(99)	(55)	**(5)**	(3)	(5)
Expenses in respect of natural and other damage caused to fixed assets	**(55)**	(35)	-	**-**	-	-
Amortization of goodwill in subsidiaries	**(40)**	(34)	(35)	**-**	-	-
Early retirement expenses	**(55)**	(30)	(32)	**-**	-	-
Other expenses, net	**(41)**	(14)	(9)	**(1)**	(9)	(1)
Dividends from other companies	**9**	8	6	**4**	-	1
	281	(160)	(143)	**41**	(12)	(5)

Note 27 - Taxes on Income

A. Composition

	Consolidated			Corporation		
	2004	**2003**	**2002**	**2004**	**2003**	**2002**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Current taxes	**465**	171	57	**-**	-	-
	48	9	-	**-**	-	-
Deferred taxes, net	**33**	(35)	132	**52**	26	(5)
	546	145	189	**52**	26	(5)

Note 27 - 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 below:

	Consolidated			Corporation		
	2004	**2003**	**2002**	**2004**	**2003**	**2002**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
Statutory tax rate applicable to the Corporation	**35%**	36%	36%	**35%**	36%	36%
Tax (tax benefit) computed at the statutory tax rate	**790**	208	81	**500**	126	(109)
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	**(82)**	(35)	(52)	**-**	-	-
Group's equity in results of investees	**57**	26	12	**(464)**	(161)	81
Tax losses and other tax benefits, net, which were not utilized and in respect of which deferred taxes were not created	**41**	81	74	**30**	60	21
Utilization of losses and benefits from prior years	**(67)**	(152)	(5)	**-**	-	-
Non-deductible expenses and exempt income (1)	**(38)**	50	118	**2**	1	2
Benefit – "Nachal" deduction	**-**	(7)	(37)	**-**	-	-
Decrease in taxes deriving from change in Companies Tax rate	**(171)**	-	-	**-**	-	-
Differences between the inflationary adjustment for tax purposes, and that used for financial reporting as well as other differences, net	**16**	(26)	(2)	**(16)**	-	-
Total tax expense	**546**	145	189	**52**	26	(5)

(1) Including income subject to tax at special rates.

Note 27 - Taxes on Income (cont'd)

B. Theoretical Tax (cont'd)

1. The deferred taxes are included in the balance sheet as follows:

	Consolidated		Corporation	
	2004	2003	2004	2003
	NIS millions	NIS millions	NIS millions	NIS millions
In current assets (a)	**102**	92	**-**	-
In long-term investments, loans and receivables	**128**	107	**-**	-
In long-term liabilities (b)	**1,520**	1,061	**93**	38

(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

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, 2002	(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	123	69	(157)	35
Differences in translation reserves	85	(13)	(14)	58
Balance as at December 31, 2003	(1,210)	194	156	(860)
Charged in current year to tax expenses	67	(90)	(10)	(33)
Initially consolidated companies	(920)	99	412	(409)
Differences in translation reserves	45	(8)	25	12
Balance as at December 31, 2003	(2,018)	195	533	(1,290)

(1) Mainly provisions for rights of employees and doubtful debts.

Note 27 - Taxes on Income (cont'd)

C. Deferred taxes (cont'd)

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.

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.

   ZIM measures its results for tax purposes in dollars based on maintenance of its books for tax purposes in dollars, as provided in the Regulations.

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. **Encouragement laws applicable to the ICL Group**

   A. <u>Tax benefits under the Law for Encouragement of Capital Investments, 1959 (hereinafter – "the Encouragement Law")</u>

   The production facilities of some of the subsidiaries in Israel have been granted "approved enterprise" status under the Encouragement Law. The income deriving from the approved enterprises is taxable at a reduced rate of Companies Tax of 25% (in place of the regular rate – see (4), below), for a period of seven years (regarding the magnesium plant, since the Magnesium Company is a Foreign Investment Company, for a period of 10 years), beginning with the year in which the given approved enterprise first had taxable income (provided 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). Approved enterprises located in National Preference Zone A that were approved after 1997, are exempt from payment of tax on the undistributed income for the first two years of the their operations and are subject to tax at the rate of 25% for the succeeding five years. In addition, these companies are entitled to claim depreciation on the fixed assets of the approved enterprise at accelerated rates.

Note 27 - Taxes on Income (cont'd)

D. Provisions for taxes (cont'd)

A. Tax benefits under the Law for Encouragement of Capital Investments, 1959 (hereinafter – "the Encouragement Law") (cont'd)

The taxable income allocated to an approved enterprise in any given year will generally be calculated based on the ratio between the real increase (based on the Industrial Output Index or the dollar) in the enterprise's total sales in such year, and the subsidiary's total income in the year preceding the start of the manufacturing activities of this particular enterprise.

The aforementioned benefits are contingent on compliance with certain terms. If the companies do not comply with the terms, as stated, the tax benefits along with other benefits may be cancelled, in whole or in part, and the subsidiaries may be required to repay the amounts of the benefits cancelled (including investment grants received, plus linkage differences and interest). In the estimation of the managements of the subsidiaries, the companies are in compliance with these conditions.

B. The Law for Encouragement of Industry (Taxes), 1969 (hereinafter – "the Industry Law")

1) Some of the Group companies in Israel are "Industrial Companies" within the meaning of the Industry Law. By virtue of this status, the companies are entitled to claim depreciation at accelerated rates with respect to equipment used in the industrial activities, as provided in the Regulations promulgated under the Encouragement Law.

2) The industrial plants owned by some of the Group companies in Israel have a common line of production and, therefore, are entitled to file consolidated tax returns in accordance with Section 23 of the Industry Law. Accordingly, each company is entitled to set off its tax losses against the taxable income of the other in the framework of the consolidated tax return.

C. Benefits for development areas

Some of the Group companies in Israel are subject to the Income Tax Regulations (Tax Reductions for Specific Settlements and Nachal Settlements) ("Nachal Deduction"), 1978, in the framework of which they are entitled to an additional deduction in respect of the facilities constructed and operated in certain areas, as provided in the aforementioned Regulations.

The Regulations were effective through December 31, 2003. Commencing January 1, 2004, the benefit described above has been discontinued.

4. Subsidiaries located abroad are taxed according to the laws of their countries of domicile.

Note 27 - Taxes on Income (cont'd)

E. Tax loss carryforwards

1. As at December 31, 2003, the Corporation has losses and deductions for tax purposes that may be carried forward to the succeeding year in the amount of NIS 680 million and capital losses for tax purposes in the amount of NIS 132 million. The Corporation recorded deferred taxes in respect of tax loss carryforwards in the amount of NIS 249 million. The balance of loss carryforwards for which no deferred taxes have been created amounts to NIS 431 million.

2. As at December 31, 2004, the Corporation has losses and deductions for tax purposes that may be carried forward to the succeeding year in the amount of NIS 3,282 million and capital losses for tax purposes in the amount of NIS 399 million. The Corporation recorded deferred taxes in respect of tax loss carryforwards in the amount of NIS 1,705 million. The balance of loss carryforwards for which no deferred taxes have been created amounts to NIS 1,577 million.

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 2000 are considered to be closed.

   ICL and its subsidiaries for tax purposes have received tax assessments for the years 1999–2000. ICL is contesting these assessments. ICL included a provision for taxes in its financial statements that in ICL 's opinion is sufficient to cover its tax exposure.

2. The Group companies have received final tax assessments for various periods up to and including the year ended December 31, 2002, except for several subsidiaries which have not received tax assessments since their inception.

G. On June 29, 2004, the Law for Amendment of the Income Tax Ordinance (No. 140 and Temporary Order), 2004 (hereinafter – "the Amendment") was passed by the Knesset. The Amendment provides for gradual reduction of the tax rates for companies, from the rate of 36% to the rate of 30%, in the following manner: in the 2004 tax year the tax rate will be 35%, in the 2005 tax year the tax rate will be 34%, in the 2006 tax year the tax rate will be 32%, and in the 2007 tax year and thereafter the tax rate will be 30%.

The current taxes and balances of deferred taxes as at December 31, 2004, are computed in accordance with the new tax rates as determined in the Amendment. The effect of the change in the consolidated financial statements in the period of the report is a decrease of tax expenses of NIS 161 million. The impact on the net income amounts to NIS 161 million.

The Corporation's share is NIS 120 million.

Note 28 - Group's Equity in Earnings (Losses) of Investees, Net

	Consolidated			Corporation		
	2004	2003	2002	2004	2003	2002
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Subsidiaries	**-**	-	-	**1,400**	307	(148)
Proportionately consolidated companies	**-**	-	-	**(3)**	(2)	(4)
Affiliated companies	**(22)**	12	(122)	**76**	142	(74)
Adjustment of provision for write-down of investment in Tower	**53**	98	(178)	**-**	-	-
	31	110	(300)	**1,473**	447	(226)

Note 29 - Earnings per share

A. The data used in computing the basic and diluted per share earnings are as follows:

	2004	2003	2002
Net earnings (loss) (NIS millions)	**1,401**	325	(299)
Weighted-average share capital (NIS thousands)	**7,570**	6,920	6,901

B. In computing the basic earnings (loss) 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 gain from the exercise of options is immaterial.

Note 30 - 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*	Performance products	Shipping	Energy	Other activities	Eliminations	Total consolidated
	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004
	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	3,714	2,148	-	5,862	3,120	2,580	11,184	-	753	-	23,499
Inter-segment	462	317	(120)	659	45	28	104	-	234	(1,070)	-
Total other operating sales and revenues, net	4,176	2,465	(120)	6,521	3,165	2,608	11,288	-	987	(1,070)	23,499
Operating income	1,035	58	(2)	1,091	282	211	759	-	(15)	97	2,425
Unallocatable expenses											(102)
Operating earnings											2,323
Financing expenses, net											(347)
Other income (expenses), net											281
Income tax											(546)
Group's equity in the net earnings (losses) of affiliates, net	-	2	-	2	-	-	51	66	(88)	-	31
Subsidiaries, net											(574)
Earnings (loss) from continuing operations											1,168
Earnings (loss) from discontinued operations, net											208
Net earnings (loss) for the year											1,376

* See section B(1).

Note 30 - Segment Information - Consolidated (cont'd)

A. Information with respect to business segments (cont'd)

	Fertilizers										
	Potash	Phosphate	Eliminations	Total	Industrial Products*	Performance products	Shipping	Energy	Other activities	Eliminations	Total consolidated
	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004
	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	**4,167**	**2,604**	**(49)**	**6,722**	**3,404**	**1,562**	**6,801**	**600**	**1,039**	**(331)**	**19,797**
Joint assets not allocated among the segments											**2,187**
Assets relating to discontinued operations											**74**
Total consolidated assets											**22,058**
Segment liabilities	**932**	**772**	**(52)**	**1,652**	**900**	**811**	**2,420**	**-**	**373**	**(376)**	**5,780**
among the segments											**9,753**
Liabilities relating to discontinued operation											**50**
Total consolidated liabilities											**15,583**
Capital expenses	**243**	**77**	**-**	**320**	**85**	**1**	**1,881**	**-**	**126**	**11**	**2,424**
Capital expenses not allocated among the segments											**2**
											2,426
Depreciation and amortization	**253**	**237**	**-**	**490**	**237**	**-**	**354**	**-**	**175**	**10**	**1,226**
Depreciation and amortization not allocated among the segments											**3**
Total depreciation and amortization											**1,269**

* See section B(1).

Note 30 - Segment Information - Consolidated (cont'd)

A. Information with respect to business segments (cont'd)

				Fertilizers							
	Potash	Phosphate	Eliminations	Total	Industrial Products*	Performance products	Shipping	Energy	Other activities	Eliminations	Total consolidated
	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
Income and loss data:											
Other operating sales and revenues, net:											
Unaffiliated customers	2,976	1,889	-	4,865	2,416	2,240	-	-	580	-	10,101
Inter-segment	376	288	(124)	540	39	23	-	-	196	(798)	-
Total other operating sales and revenues, net	3,352	2,177	(124)	5,405	2,455	2,263	-	-	776	(798)	10,101
Operating income (loss)	663	13	5	681	73	156	-	-	(52)	91	949
Non-allocable expenses											(95)
Operating earnings											854
Financing expenses, net											(117)
Other income (expenses), net											(160)
Income tax											(145)
Group's equity in the net earnings (losses) of affiliates, net	-	(3)	-	(3)	-	-	100	58	(45)	-	110
Subsidiaries, net											(203)
Earnings (loss) from continuing operations											339
Earnings (loss) from discontinued operations, net											(14)
Net earnings (loss) for the year											325

Note 30 - Segment Information - Consolidated (cont'd)

A. Information with respect to business segments (cont'd)

	Fertilizers										
	Potash	Phosphate	Eliminations	Total	Industrial Products*	Performance products	Shipping	Energy	Other activities	Eliminations	Total consolidated
	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004
	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	457	544	1,153	(64)	13,810
Joint assets not allocated among the segments											1,704
Assets relating to discontinued operations											415
Total consolidated assets											15,929
Segment liabilities	1,025	579	(167)	1,437	765	671	-	-	275	(69)	3,079
Among the segments											7,992
Liabilities relating to discontinued operation											413
Total consolidated liabilities											11,484
Capital expenses	297	68	-	365	85	90	-	-	58	1	599
Depreciation and amortization	239	165	-	404	310	90	-	-	37	-	841
Depreciation and amortization not allocated among the segments											5
Total depreciation and amortization											846

* See section B(1).

Note 30 - Segment Information - Consolidated (cont'd)

A. Information with respect to business segments (cont'd)

	Fertilizers										
	Potash	Phosphate	Eliminations	Total	Industrial Products*	Performance products	Shipping	Energy	Other Activities	Eliminations	Total consolidated
	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
Income and loss data:											
Other operating sales and revenues, net:											
Unaffiliated customers	**2,316**	**1,765**	**-**	**4,081**	**2,642**	**2,064**	**-**	**-**	**578**	**-**	**9,365**
Inter-segment	**371**	**222**	**(99)**	**494**	**48**	**18**	**-**	**-**	**186**	**(746)**	**-**
Total other operating sales and revenues, net	**2,687**	**1,987**	**(99)**	**4,575**	**2,690**	**2,082**	**-**	**-**	**764**	**(746)**	**9,365**
Operating income	**561**	**28**	**-**	**589**	**167**	**199**	**-**	**-**	**(48)**	**69**	**976**
Unallocatable expenses											**(72)**
Operating earnings											**904**
Financing expenses, net											**(359)**
Other income (expenses), net											**(143)**
Income tax											**(189)**
Group's equity in the net earnings (losses) of affiliates, net	**-**	**-**	**-**	**-**	**-**	**-**	**(21)**	**(27)**	**(252)**	**-**	**(300)**
Subsidiaries, net											**(187)**
Earnings (loss) from continuing operations											**(274)**
Earnings (loss) from discontinued operations, net											**(25)**
Net earnings (loss) for the year											**(299)**

* See section B(1).

Note 30 - 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, in accordance therewith the consumption and supervised use of methyl bromide produced by the Bromine Companies, which are included in the industrial products segment (whose annual turnover in the 3 years ended December 31, 2004 constituted 2%–4% of the Group's total consolidated turnover), is to be reduced in countries that are 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 are expected to decrease as a result of the reduction in production and sales.

The Bromine Group is seeking alternatives to methyl bromide.

Note 30 - 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 or to the areas from which the cargo was shipped):

	2004	2003	2002
	NIS millions	NIS millions	NIS millions
Europe	**7,014**	4,839	4,178
Asia	**8,645**	1,762	1,784
America	**4,365**	2,210	2,126
Other	**1,718**	398	396
	21,742	9,209	8,484
Israel	**1,757**	892	881
Total	**23,499**	10,101	9,365

Set forth below is sales' data – on a consolidated basis – classified based on geographic areas based on asset location):

	2004	2003	2002
	NIS millions	NIS millions	NIS millions
Israel	**7,257**	5,654	6,148
Europe	**4,484**	4,470	3,119
United States	**504**	245	292
Other	**522**	173	163
	12,767	19,542	9,722
Transfers – mainly from Israel	**(556)**	(441)	(357)
Shipping (*)	**11,288**	-	-
Total	**23,499**	10,101	9,365

* Regarding the shipping sector, see Section 3, below.

Note 30 - 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:

	2004	2003	2002
	NIS millions	NIS millions	NIS millions
Israel	**1,190**	634	838
Europe	**276**	199	60
United States	**(7)**	(9)	3
Shipping (*)	**759**	-	-
Other	**105**	33	3
Total	**2,323**	854	904

* Regarding the shipping sector, see Section 3, below.

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	
	2004	2003	2004	2003
	NIS millions	NIS millions	NIS millions	NIS millions
Israel	**9,146**	9,881	**357**	341
Europe	**3,498**	3,157	**220**	237
United States	**534**	671	**4**	15
Shipping (*)	**6,801**	-	**1,824**	-
Other	**(182)**	101	**19**	6
Total	**19,797**	13,810	**2,424**	599

* Regarding the shipping sector, see Section 3, below.

Note 30 - 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:

	2004	2003	2002
	NIS millions	NIS millions	NIS millions
Depreciation and amortization:			
Israel	**628**	598	750
Europe	**214**	208	190
United States	**57**	31	33
Shipping (*)	**354**	-	-
Other	**13**	4	3
Total	**1,266**	841	976

* Regarding the shipping sector, see Section 3, below.

3. Following is data with respect to the shipping sector based on geographical area in 2004.

	Inland Asia	Trans Pacific	Far East–Europe	Trans Italy	Europe	Other	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Income	905	3,993	2,067	2,096	632	1,596	11,289
Depreciation	38	113	55	73	23	52	354
Operating profit	56	417	292	(103)	(10)	107	759

4. 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).

5. 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 the consolidation.

Note 31 - Related and Interested Parties

A. Transactions with interested and related parties

	2004	2003	2002
	NIS thousands	NIS thousands	NIS thousands
Operating expenses of voyages and services	**247,000**	-	-
Administrative expenses *	**1,693**	-	-
Compensation of directors not employed by the Corporation	**1,917**	1,287	881
Compensation of interested parties employed by the Corporation (2 employees)	**9,980**	8,170	6,217

* The expenses presented above are incurred in the ordinary course of business.

B. Balances with interested parties (mainly interested-party banks)

	2004	2003
	NIS millions	NIS millions
Deposits	**228**	34
Loans received	**1,328**	1,854

C. The Corporation's CEO, through a company he wholly owns, has an agreement for provision of management services to the Corporation, for a fixed period up to June 30, 2005.

D. In March 2005, the Corporation's Board of Directors approved a compensation plan for employees and officers by means of a stock issuance pursuant to which the Corporation's CEO will be issued 1,863 shares. The shares will be restricted in the hands of the trustee until December 31, 2006.

E. Exemption from description of transactions with Bank Leumi Le'Israel Ltd. and the United Mizrahi Bank (hereinafter – "the Banks").

The Corporation and the Group companies have received an exemption from the Israel Securities Authority from the requirement of giving details of transactions between the Corporation and the Banks, which could be considered to be interested parties, except for disclosure of extraordinary transactions, this being by virtue of its authorities under Regulation 64(3)(D). The exemption was granted since identification of all the transactions with the Banks that are not extraordinary involves considerable difficulties.

The main types of transactions carried on with the Banks are as follows:

Regular banking activities, regular bank accounts, foreign currency transactions, hedging transactions and currency conversions, short-term and long-term credit, long-term deposits, third-party guarantees, and trading in securities. The transactions are executed at market terms based on the terms determined in negotiations between the parties.

Regarding commitments with interested parties in respect of operating leases of ships and the equipping thereof – see Note 19C(3)(a).

Regarding indemnification and liability insurance of officers – see Note 19C(1).

Note 32 - 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 this will happen considering that the other parties are Israeli or foreign banks. The Group does not demand 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, SWAPs and currency options, in order to hedge against the risk that the final cash flows in dollars deriving from existing assets and liabilities as well as sales and purchases of goods and services in the framework of firm or anticipated commitments, including in respect of future operating expenses (based on a budget of up to one year) will be affected by fluctuations in the exchange rate.

As at December 31, 2004, the Group has open forward transactions in the deemed amount of $180 million, of which $6 million is in the Corporation's balance sheet, currency options purchased and written the deemed amount of which at the balance sheet date is $129 million, options purchased or written the deemed amount of which is $18 million, as well as SWAP transactions involving the exchange of liabilities for dollar liabilities at variable interest, in the amount of $58 million, of which $45 million is in the Corporation.

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.

The Group has interest rate SWAP transactions in which it receives a variable interest rate based on the six-month LIBOR rate (as at December 31, 2004 – 2.78%) and it pays interest at a fixed rate of 2.5%–2.7%. Some of these transactions combine the writing of options, according to which if the variable interest rate, based on the LIBOR rate, reaches 5.5%–6.5%, the transactions will be frozen until the succeeding interest period. As at December 31, 2004, open transactions were included in the consolidated balance sheets, in the amount of $153 million, including $35 million in the Corporation's balance sheet.

In addition, the Group purchased and wrote interest options that fix the LIBOR interest rate in the range of 2% to 6.25% (collar). As at December 31, 2004, these options cover a deemed amount of $483 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%–7.55% 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 3%–4% which, as at December 31, 2004, cover a deemed amount of $130 million.

Note 32 - Financial Instruments and Risk Management (cont'd)

D. Product and raw material price risk management

A subsidiary executes SWAP transactions to hedge its cash flows, against fuel price fluctuations related to the coming year's purchases of fuel for current operations. As at the balance sheet date, there is an open transaction in the deemed amount of $10 million.

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

The Group's cash and cash equivalents, the short-term deposits and short-term marketable investments are deposited mainly in banks and financial institutions in Israel, Europe and the USA.

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.

F. Fair value of financial instruments

The financial instruments of the Group include mainly, non-derivative assets: cash and cash equivalents, marketable securities, short-term loans and deposits, trade receivables, other receivables, investments, loans and long-term receivables, and non-derivative liabilities: short-term credit from banks and suppliers, trade payables, other payables, loans and other long-term liabilities, convertible debentures and derivative financial instruments.

Due 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, 2004, reflects a net gain of NIS 3.8 million in relation to the amounts at which they are presented in the Corporation's balance sheet (a gain of NIS 8.2 million in the consolidated balance sheet), which stems mainly from transactions hedging interest and transactions hedging changes in the rates of exchange on long-term loans. The fair value of these instruments usually reflects the estimated amounts that the Corporation would pay or receive in order to close out the transactions on the balance sheet dates.

Note 32 - Financial Instruments and Risk Management (cont'd)

G. Linkage terms of monetary balances

Composition as at December 31, 2004

	In dollars or linked thereto	In foreign currency or linked thereto	Linked to the CPI	Unlinked	Other	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Current assets	3,401	1,492	250	853	2,470	8,466
Non-current assets	42	96	57	29	13,294	13,518
Current liabilities	3,530	1,669	42	1,223	442	6,906
Long-term liabilities	5,688	786	293	676	1,520	8,963

Note 33 - Events Occurring Subsequent to the Balance Sheet Date

A. Regarding an agreement of Tower with the banks – see Note 7.E.1.A.

B. Regarding loans from banks received by the Corporation – see Note 16D.

C. Regarding conversion of convertible debentures into shares of the Corporation and shares of ICL – see Note 17.A.

D. Regarding the continued negotiations between the Corporation and the Government with respect to the ORL concession – see Note 19.D.2.

Note 34 - Data in Nominal Historical Values for Tax Purposes

A. Accounting principles used in presentation of data in nominal historical values for tax purposes:

1. These financial statements were prepared on the basis of historical cost.

2. These financial statements include data for the Corporation only, without the presentation of consolidated financial statements as required by generally accepted accounting principles.

3. The investment in investee companies as at December 31, 2004, is presented based on the equity method in historical values as December 31, 2003, without equity income for 2004 as required by generally accepted accounting principles.

B. Balance sheets

	2004	2003
	NIS millions	NIS millions
Current assets		
Cash and cash equivalents	-	4
Marketable securities	9	-
Short-term loans	470	437
Other receivables	5	5
	484	446
Investments		
Investee companies	3,592	3,395
Other investments	4	4
	3,596	3,399
Deferred expenses	4	2
	4,084	3,847
Current liabilities		
Short-term credit from bank and others	243	164
Other payables	35	25
	278	189
Long-term liabilities		
Debentures convertible into shares of the Corporation	-	249
Liabilities to banks and others	1,226	989
	1,226	1,238
Debentures convertible into shares of the Corporation	168	-
Shareholders' equity	2,412	2,420
	4,084	3,847

Note 34 - Data in Nominal Historical Values for Tax Purposes (cont'd)

C. Statements of earnings

	2004 NIS millions	2003 NIS millions	2002 NIS millions
Income			
Corporation's equity in earnings (losses) of investee companies, net	**-**	789	(264)
	-	789	(264)
Expenses			
Financing (income) expenses, net	**50**	(2)	133
General and administrative expenses	**9**	4	2
Other expenses, net	**(2)**	9	3
	57	11	138
Net earnings (loss) for the year	**(57)**	778	(402)

Note 34 - Data in Nominal Historical Values for Tax Purposes (cont'd)

D. 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, 2002	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
Changes in 2004:						
Net loss for the year	**-**	**-**	**-**	**-**	**(57)**	**(57)**
Dividend proposed after the balance sheet date	**-**	**-**	**-**	**220**	**(220)**	**-**
Issuance of capital	**-**	**(10)**	**10**	**-**	**-**	**-**
Conversion of debentures for shares	**-**	**49**	**-**	**-**	**-**	**49**
Balance as at December 31, 2004	**7**	**981**	**-**	**220**	**1,204**	**2,412**

Annex - Schedule of Investee Companies of the Group as at December 31, 2004

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Israel Corporation Ltd.	Zim Israel Navigation Co. Ltd.	97.9	97.9	fully consolidated subsidiary
	Oil Refineries Ltd.	26.0	26.0	affiliate
	Israel Chemicals Ltd.**	26.5	26.5	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. 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
	Sorbie Europe B.V. Netherlands	62.2	62.2	fully consolidated subsidiary
	Sorbie Holdings Ltd. (in voluntary liquidation)	62.2	62.2	fully consolidated subsidiary
	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	49.0	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	97.0	97.0	fully consolidated subsidiary
	Joint Transport International Services Ltd.	100.0	100.0	fully consolidated subsidiary
	Al Hout Yam Ltd.	100.0	100.0	fully consolidated subsidiary
	Astromar S.L. Madrid	51.0	51.0	fully consolidated subsidiary
	Astramaris Shipping Europe GmbH	100.0	100.0	fully consolidated subsidiary
	Astramaris Europe B.V. - Roterdam	100.0	100.0	fully consolidated subsidiary
	Gal Marine Ltd.	100.0	100.0	fully consolidated subsidiary
	Globe Star Shipping Pty. Ltd. Australia	100.0	100.0	fully consolidated subsidiary
	Gold Maritime Co. Ltd. Japan	99.0	99.0	fully consolidated subsidiary
	M. Dizengoff & Co. P & I Representatives Ltd.	100.0	100.0	fully consolidated subsidiary
	Hellastir Shipping Enterprises Ltd. Greece	100.0	100.0	fully consolidated subsidiary
	Hellastir Maritime S.A. Greece	100.0	100.0	fully consolidated subsidiary
	Star Shipping agencies Ltd. London	100.0	100.0	fully consolidated subsidiary
	Zaisco	100.0	100.0	fully consolidated subsidiary

* 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, 2004 (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	fully consolidated subsidiary
	Marseille Consignation S.A. France	50.0	50.0	affiliate
	Zim Do Brazil Ltd.	100.0	100.0	fully consolidated subsidiary
	Star Agenzia Maritima (Genoa) S.R.L.	100.0	100.0	fully consolidated subsidiary
	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	Fully consolidated subsidiary
	C.C.T. GMBH Germany	51.0	51.0	Fully consolidated subsidiary
	Polaris Shipping (PTY) Ltd. South Africa	100.0	100.0	affiliate
	Zim Israel Navigation Company (Canada) Ltd.	100.0	100.0	fully consolidated subsidiary
	Kedem Land Bridge Co. Ltd.	100.0	100.0	affiliate
	Carib Star shipping Limited Jamaica	70.0	70.0	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	fully consolidated subsidiary
	Sun Hing Shipping (China) Co. Ltd.	40.0	40.0	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	fully consolidated subsidiary
	Zim Israel Navigation (China) Co. Ltd.	100.0	100.0	Fully consolidated subsidiary
	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	fully consolidated subsidiary
	Zim Logistic (China) Ltd.	100.0	100.0	fully consolidated subsidiary
	Ramon London	100.0	100.0	fully consolidated subsidiary
	New Log Ltd.	100.0	100.0	fully consolidated subsidiary
	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
	Seven Stars Japan	50.0	50.0	affiliate
	Russian container	50.0	50.0	affiliate
	Exel Multi Purpose logistics Ltd.	50.0	50.0	affiliate
	Zim Trinidad	50.0	50.0	affiliate
	Zim Venezuela	50.0	50.0	affiliate
	Zim Panama	50.0	50.0	affiliate
	Zim Star shanghai	49.0	49.0	affiliate
	Star World aviation (s) PTE. Ltd.	100.0	100.0	fully consolidated subsidiary
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

* The investee is also held by other Group companies.

Annex - Schedule of Investee Companies as at December 31, 2004 (cont'd)

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
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
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.	ICL Finance B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	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
	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
	Dead Sea Magnesium Ltd.	65.0	66.7	fully consolidated subsidiary
	P.A.M.A (Energy Resources Development) Ltd.	*25.0	25.0	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 Ltd.	100.0	100.0	fully consolidated subsidiary (inactive)
	Turris Werke GmbH, Germany	100.0	100.0	fully consolidated subsidiary
	ICL Fertilizers	*50.0	50.0	Consolidated Partnership
	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, China	33.3	33.3	Affiliate (inactive)
Iberpotash S.A. Spain	Trafico De Mercancias S.A., Spain	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, 2004 (cont'd)

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Dead Sea Bromine Company Ltd.	Dead Sea Periclase Fused products. Co, Israel	* 99.0	99.0	fully consolidated subsidiary
	Tami (IMI) Investment for R&D Ltd. Israel	100.0	100.0	fully consolidated subsidiary
	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
	Bromine Compounds Marketing (2002) Ltd., Israel	100.0	100.0	fully consolidated subsidiary
	Dead Sea Periclase Fused products. Co, Israel	* 1.0	1.0	Consolidated partnership
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 B.K.G LLC, U.S.A.	100.0	100.0	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	Consolidated Partnership

by other Group companies.

Annex - Schedule of Investee Companies as at December 31, 2004 (cont'd)

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Eurocil Holding B.V., The Netherlands	Amsterdam Fertilizers B.V. The Netherlands	100.0	100.0	fully consolidated subsidiary
	Rotem Holding GMBH, Germany	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	98.9	98.9	fully consolidated subsidiary
	Incap B.V. Holland	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
	Pekafert B.V. The Netherlands	100.0	100.0	fully consolidated subsidiary
Rotem Holding G.M.B.H., Germany	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
	Fibrisol Australia P.T.Y. Ltd.	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	60.0	60.0	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 GMBH, Germany	100.0	100.0	fully consolidated subsidiary
	Fibrisol Service Ltd., Great Briteain	100.0	100.0	fully consolidated subsidiary
	B.K. Giulini Leather Chemistry Co. Ltd. Hong Kong, China	51.0	51.0	fully consolidated subsidiary
	B.K.G. Puriphos B.V., The Netherlands	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
	Rhenoflex G.M.B.H., Germany	100.0	100.0	fully consolidated subsidiary
	Rotem-Do Brazil Ltd., Brazil	100.0	100.0	fully consolidated subsidiary
	Tari International N.Z. Ltd , New Zealand	100.0	100.0	fully consolidated subsidiary
	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, 2004 (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 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 Crop., U.S.A	Clearon Technologies, U.S.A	100.0	100.0	fully consolidated subsidiary
BKG Puriphos B.V, The Netherlands	Asia Brom Ltd., Hong Kong	100.0	100.0	fully consolidated subsidiary
Eurocil Luxembourg S.A	Gerhard Ruff G.M.B.H. Germany	100.0	100.0	fully consolidated subsidiary
	Osterrichische Anti Germ Gerhard Ruff & Co. G.M.B.H., Austria	100.0	100.0	fully consolidated subsidiary
	Penngar S.A., France	100.0	100.0	fully consolidated subsidiary
	Speciality Technologies Europe B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	Euro Clearon B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
Oren Semiconductor Inc.	Oren Semiconductor Ltd.	100.0	100.0	affiliate
PSI Networks Europe SARL	PSI Networks UK Limited	100.0	100.0	fully consolidated subsidiary
	Modem Holdings Limited	100.0	100.0	fully consolidated subsidiary

Annex - Schedule of Investee Companies as at December 31, 2004 (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
	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
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
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	Partnership affiliate (inactive)
	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	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 (inactive)
	ADOM Ashkelon desalination	40.5	40.5	Affiliate

* The investee is also held by other Group companies.

Annex - Schedule of Investee Companies as at December 31, 2004 (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
Dead Sea Magnesium Ltd.	Magnesium Die casting Ltd.	100.0	100.0	fully consolidated subsidiary (inactive)
	Magnesium Research Institute Registered Amuta	100.0	100.0	fully consolidated subsidiary (inactive)
	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.	*14.0	14.0	fully consolidated subsidiary
H.L. Acquisitions ICL (1998) Ltd.	I.C.L. Ltd.	* 7.9	7.9	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.**	21.7	21.7	affiliate
	Udi International (1994) Ltd	100.0	100.0	fully consolidated subsidiary (inactive)
Tower Semiconductor Ltd.	Tower Semiconductor U.S.A.	100.0	100.0	affiliate
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	Proportionately consolidated investee
	CMS Compucenter Ltd.	100.0	100.0	Proportionately consolidated investee
	Mars Information Computer Networking Solutions Ltd.	100.0	100.0	Proportionately consolidated investee
	Mars Information Service Center Ltd.	100.0	100.0	Proportionately consolidated investee
	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, 2004 (cont'd)

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
PSINet Europe B.V.	PSINet Italy S.R.L	100.0	100.0	fully consolidated subsidiary
	PSINet Europe SARL	100.0	100.0	fully consolidated subsidiary
	PSINet Realty & Datacer Europe SARL	100.0	100.0	fully consolidated subsidiary
	PSINetworks Europe SARL	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 France SARL	100.0	100.0	fully consolidated subsidiary
Cleveland Potash Ltd (CPL), U.K	Constantine & Company (Export) Limited, UK	50.0	50.0	Proportionately consolidated investee (inactive)
Pekafert B.V., The Netherlands	Eurocil Luxembourg S.A. Luxembourg	100.0	100.0	fully consolidated subsidiary
Penngar S.A., France	Penngar Hispania SL, Spain	100.0	100.0	fully consolidated subsidiary
Ambient Technologies Inc., USA	Larnaca Water Partners, Cyprus	* 5.0	5.0	Proportionately consolidated investee
Osterrichische Anti Germ Gerhard Ruff & Co .G.M.B.H. Austria	Anti - Germ CZ S.R.O. Czech Republic	100.0	100.0	fully consolidated subsidiary
	OAG Hungary Kft., Hungary	100.0	100.0	fully consolidated subsidiary