Israel Corporation Limited

Financial Statements
As at June 30, 2005
(Unaudited)

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Contents

Directors' Report to the Shareholders of Israel Corporation Ltd.

For the Six Months Ended June 30, 2005

DESCRIPTION OF THE CORPORATION AND ITS BUSINESS ENVIRONMENT

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 55% by the Ofer Group and 18% by Bank Leumi Le-Israel B.M.

The Corporation's strategy is designed to adapt its business structure to the business situation existing in Israel and globally, while endeavoring to expand the Group's geographic dispersion and international market penetration in the manufacturing and marketing areas.

In the period of the report, the positive trend continued in the international markets in the areas in which the Corporation operates – the fertilizers, shipping and energy fields.

The Group 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 and fertilizers, 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 financial statements for the period ended June 30, 2005, and on the assumption that the reader is also in possession of the said financial statements. This report has been prepared in a condensed format for the aforementioned period on the assumption that the reader is also in possession of the periodic report for 2004.

FINANCIAL POSITION

– The total assets, as at June 30, 2005, amounted to NIS 23,355 million, compared with NIS 21,566 million, as at June 30, 2004.

– The balance of the long-term investments, loans and receivables as at June 30, 2005 amounted to NIS 1,306 million, compared with NIS 1,607 million as at June 30, 2004.

– The long-term liabilities, as at June 30, 2005, amounted to NIS 9,399 million, compared with NIS 9,577 million, as at June 30, 2004.

– The Corporation's working capital as at June 30, 2005 amounted to NIS 3,260 million, compared with working capital of NIS 932 million as at June 30, 2004.

– The Corporation's shareholders' equity as at June 30, 2005 amounted to NIS 4,660 million, compared with NIS 2,798 million as at June 30, 2004, and NIS 3,612 million as at December 31, 2004.

– The cash flows from operating activities in the period of the report amounted to NIS 1,526 million, compared with NIS 1,188 million in the corresponding period last year.

– The cash flows used in financing activities in the period of the report amounted to NIS 1,034 million, compared with NIS 249 million in the corresponding period last year. The increase derives from an increase in repayments of long-term liabilities of some of the Group companies.

RESULTS OF OPERATIONS

The Corporation ended the period of the report with earnings of NIS 806 million, compared with earnings of NIS 560 million in the corresponding period last year.

Eliminating non-recurring items, the earnings in the period of the report amounted to NIS 620 million, compared with earnings of NIS 310 million in the corresponding period last year, an increase of 100%.

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

A. Israel Chemicals Ltd. (hereinafter – "ICL") finished the period of the report with earnings of $197 million compared with earnings of $107 million in the corresponding period last year. Last year the earnings included non-recurring earnings of $18 million.

B. ZIM Integrated Shipping Services Ltd. (hereinafter – "ZIM") finished the period of the report with earnings of $94 million, compared with earnings of $76 million in the corresponding period last year. The earnings included non-recurring items of $31 million. Last year the earnings included non-recurring earnings of $38 million.

C. Oil Refineries Ltd. (hereinafter – "ORL") finished the period of the report with earnings of NIS 681 million, compared with earnings of NIS 335 million in the corresponding period last year. The earnings included non-recurring earnings of $130 million. The Corporation reduced its share in ORL's earnings by NIS 157 million (see Section on Changes in the Investments Portfolio).

D. Tower Semiconductor Ltd. (hereinafter – "Tower") finished the period of the report with a loss of $103 million, compared with a loss of $75 million in the corresponding period last year.

   The Group share of Tower's losses amounted of NIS 97 million. On the other hand, reduced the provision for decline in value of the investment in Tower by NIS 48 million.

E. The net financing expenses in the period of the report amounted to NIS 61 million, compared with expenses of NIS 177 million in the corresponding period last year. The decline in the financing expenses, net, stems from income from exchange rate differences and a decline in the average balance of ICL's balances.

In the second quarter of the period of the report the earnings, without non-recurring earnings, amounted to NIS 290 million, compared with NIS 199 million in the corresponding period last year – an increase of 46%. The total earnings in the second quarter amounted to NIS 327 million, compared with expenses of NIS 409 million in the corresponding period last year.

Set forth below are the factors that impacted the results of operations in the second quarter of the period of the report:

A. ICL – finished the second quarter with earnings of $101 million compared with earnings of $75 million in the corresponding quarter last year. Last year the earnings included non-recurring earnings of $18 million.

B. ZIM – finished the second quarter with earnings of $29 million, compared with earnings of $59 million in the corresponding quarter last year. Last year the earnings included non-recurring earnings of $38 million.

C. ORL – finished the second quarter with earnings of NIS 400 million, compared with earnings of NIS 270 million in the corresponding quarter last year. Last year the earnings included non-recurring earnings of NIS 130 million. The Corporation reduced its share in ORL's earnings by NIS 90 million. (See Section – Changes in the Investments Portfolio).

D. Tower Semiconductor Ltd. (hereinafter – "Tower") finished second quarter with a loss of $47 million, compared with a loss of $37 million in the corresponding quarter last year.

   The Group share of Tower's losses amounted of NIS 97 million. On the other hand, reduced the provision for decline in value of the investment in Tower by NIS 48 million.

RESULTS OF OPERATIONS (cont'd)

E. The net financing expenses in the second quarter amounted to NIS 15 million, compared with expenses of NIS 105 million in the corresponding quarter last year. The decline in the financing expenses, net, stems from income from exchange rate differences and a decline in the average balance of ICL's balances.

As an investments company, the Corporation's financial results are affected by the results of its investee companies as well as by non-recurring revenues and expenses.

CHANGES IN THE INVESTMENT PORTFOLIO

A. In the period of the report, ZIM sold three ships, for a consideration of $111 million. The ships were leased to ZIM by means of a bare boat lease for a period of 5–6 years. The after-tax capital gain realized by ZIM totals $31 million, and Israel Corporation's share of the gain is approximately NIS 135 million.

B. As at the balance sheet date, 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 the ORL Concession).

As at the balance sheet date, the Corporation's investment in ORL is set at the exercise price of the option, in the amount of NIS 616 million, which is NIS 293 million less than the amount of the investment based on the equity method of accounting.

C. In the period of the report, the Group included its share of Tower's losses in the amount of NIS 97 million and, at the same time, it reduced the provision for decline in value of the investment in Tower (which was recorded in 2004) by NIS 48 million.

D. In the second quarter of the period of the report, an affiliated company, Oren Semiconductor Inc. (hereinafter – "Oren") signed an agreement with Zoran Corporation (hereinafter – "Zoran") pursuant to which Zoran will acquire all of Oren's shares from its shareholders.

The value of the consideration to be received by the Group in cash and in shares of Zoran will amount to NIS 56 million. The after-tax capital gain is expected to come to NIS 43 million.

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

ISRAEL CHEMICALS LTD.

ICL finished the period of the report with earnings of $197 million, compared with earnings of $107 million in the corresponding period last year.

In the period of the report, the price increases in most of ICL's areas of activities continued, as a result of the worldwide economic growth and improvement of the ICL Group's target markets. The basic conditions in world agricultural market, which impact the demand for fertilizers, continue to be good.

Sales of the ICL Group totaled $1,484 million in the period of the report, compared with $1,291 million in the corresponding period last year, an increase of 15%. The increase in the sales of the ICL Group reflects an increase in turnover of the ICL Group's activities due, mainly, to an increase in prices in most of ICL's products along with an increase in sales for some products. In addition, the upward revaluation of the euro against the dollar also contributed somewhat to the increase in revenues from sales in Europe.

In the period of the report, the rate of the gross profit to the total sales was 39%, compared with 34% in the corresponding period last year, and the rate of the operating income to the total sales was 19% in the period of the report, compared with 12% in the corresponding period last year. The increase in the income rates, despite the increase in the energy prices and the prices of some of the raw materials, derives mainly from the increase in sales and the continuation of the efficiency measures.

In the period of the report, the ICL Group accrued financing income, in the amount of $1 million, compared with financing expenses of $19 million in the corresponding period last year. In the period of the report, ICL recorded income from exchange rate differences, in the amount of $14 million. In addition, the average balance of the net financial liabilities decreased, which was offset, in part, by an increase in the average dollar interest rate in the period.

ICL finished the second quarter of the period of the report with earnings of $101 million, compared with earnings of $75 million in the corresponding quarter last year.

The sales in the second quarter totaled $774 million, compared with $672 million in the corresponding quarter last year, an increase of 15%. The increase in the sales reflects an increase in turnover of all the Group's activity sectors, particularly in the fertilizers segment, mainly due to an increase in prices. The upward revaluation of the euro against the dollar also contributed to the increase in revenues from sales in Europe

The rate of the gross profit to total sales was 38% in the second quarter, compared with earnings of 35% million in the corresponding quarter last year.

In the second quarter, ICL had net financing income, in the amount of $3 million, compared with financing expenses of $10 million in the corresponding quarter last year. In the second quarter, ICL recorded income from exchange rate differences, in the amount of $10 million. In addition, the average balance of the net financial liabilities decreased, the effect of which was partly offset by an increase in the average dollar interest in the quarter.

ZIM INTEGRATED SHIPPING SERVICES LTD.

ZIM finished the period of the report with earnings of $94 million compared with earnings of $76 million in the corresponding period last year.

Set forth below is main data from ZIM's statement of income:

	For the Six Months Ended June 30		For the Three Months Ended June 30	
	2005	2004	2005	2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	In Millions of Dollars			
Income from voyages and accompanying services	1,392	1,143	735	589
Operating expenses and cost of services	1,220	1,006	653	518
Depreciation	35	38	18	19
Gross profit	137	99	64	52
Administrative and general expenses	50	39	26	21
Operating expenses	87	60	38	31
Net income for the period	94	76	29	59

Set forth below is main data from ZIM's statement of cash flows:

	For the Six Months Ended June 30		For the Three Months Ended June 30	
	2005	2004	2005	2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	In Millions of Dollars			
Cash flows provided by operating activities	113	74	41	37
Cash flows used in investing activities	(94)	(59)	(119)	(11)
Cash flows provided by (used in) financing activities	(83)	(3)	(27)	23

Set forth below is main data from ZIM's balance sheet:

	As at June 30	
	2005	2004
	(Unaudited)	(Unaudited)
	In Millions of Dollars	
Total financial liabilities	643	683
Total monetary assets	304	147
Shareholders' equity	458	293
Total assets	1,638	1,357

The increase in ZIM's total sales in the period of the report stems from an increase in the average shipping price per container of 16% and an increase in the quantity of containers shipped of 6%, compared with the corresponding period last year.

In the second quarter of the period of the report, there was an increase in the average shipping price per container of 16% and an increase in the quantity of containers shipped of 9%, compared with the corresponding quarter last year.

The ship leasing expenses increased in the period of the report by 43% compared with the corresponding period last year and by 43% in the second quarter compared with the corresponding quarter last year.

Fuel prices by 23% increased in the period of the report compared with the corresponding period last year, and by 34% in the second quarter compared with the corresponding quarter last year.

The number of containers shipped in the period of the report came to 1,034 thousand, compared with 972 thousand in the corresponding period last year. In the second quarter, 545 thousand were shipped compared with 501 thousand in the corresponding quarter last year.

In the first quarter of the period of the report, ZIM sold three container ships, for a consideration of $111 million. The after-tax capital gain realized by ZIM totaled $31 million. The ships were leased to ZIM by means of a bare boat lease for a period of 5–6 years.

TOWER SEMICONDUCTOR LTD.

During the period of the report, Tower's sales totaled $50 million, compared with $61 million in the corresponding period last year.

The cost of sales in the period of the report amounted to $122 million, compared with $104 million in the corresponding period last year.

Tower finished the period of the report with a loss of $103 million, compared with a loss of $75 million in the corresponding period last year.

Pursuant to the credit agreement with the banks, Tower is required to comply with certain conditions and financial covenants (hereinafter – "the Financial Covenants"). In January 2005, Tower and the lending banks signed a letter of waiver in accordance with which the banks waived Tower's non-compliance with some of the Financial Covenants in the fourth quarter of 2004. In addition, the waiver letter signed also includes an update of the Financial Covenants that Tower must comply with during 2005.

In light of Tower's continuing losses, negative cash flows from operating activities and anticipated cash deficiency, Tower is endeavoring to obtain the financing necessary for its continuing operations in the short run, and is also taking steps to reduce its current liabilities and to cutback costs, including by streamlining its workforce.

In July 2005, Tower and the banks signed an amendment to the credit agreements (hereinafter – "the Amendment to the Agreement"), pursuant to which the banks will provide financing of up to $30 million subject to the same amount being raised by Tower from investors. Certain of Tower's shareholders committed to invest the amount of $25.5 million in the framework of that stated above, of which $20 million by the Corporation, as part of an issuance of rights.

In the Amendment to the Agreement, the Financial Covenants were also updated in order to conform them to Tower's work plan.

In November 2003, the Corporation committed to Tower's lending banks to provide a security net to Tower in the amount of $50 million. As at June 30, 2005, the balance of the liabilities is $14 million. Pursuant to the Amendment to the Agreement, the Corporation's investment in the amount of at least $14 million in the Rights Issuance will be considered as part of the commitment to provide a security net and thus the commitment will come to an end.

In accordance with the credit agreement with the banks, if as the result of any violation of the agreement the banks choose to accelerate Tower's obligations, Tower will be obligated, 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 the remedies available to them in the credit agreement, including realization of the liens recorded on Tower's assets.

Pursuant to the original approval from the Investments Center, Tower was supposed to complete the investment in FAB2 by December 31, 2005. Tower is holding discussions with the Investments Center for purposes of receiving an extension of the period beyond December 31, 2005. Since the examination process is in only the initial stages, Tower's Management is unable to estimate the chances that the approval will be received as stated.

OIL REFINERIES LTD.

ORL finished the period of the report with earnings of NIS 681 million, compared with earnings of NIS 355 million in the corresponding period last year.

The total revenues amounted to NIS 12,172 million, compared with NIS 8,432 million in the corresponding period last year.

The continued worldwide demand for fuel products that began in 2004, particularly in the developed economies of Asia and the United States, caused an increased in the average price per barrel of crude oil of the "brent" type. The average price per barrel in the period of the report reached $50 per barrel, compared with $34 per barrel in the corresponding period last year (increase of 48%).

The fluctuation in the prices increased against the background of fears of a fuel shortage, weakness of the dollar and speculative activities.

The average price per ton of the main products' basket in the Mediterranean Sea area similar to ORL's product basket was sold for $414, compared with $279 in the corresponding period last year.

The gross income in the period of the report amounted to NIS 1,273 million, compared with NIS 589 million in the corresponding period last year.

Margin on refining activities ($ per ton):

	January – March	**April – June**	**January – June**
2005	48.6	61.7	55.2
2004	25.0	35.7	29.9

OIL REFINERIES LTD. (cont'd)

The financing expenses in the period of the report, amounted to NIS 126 million, compared with NIS 134 million in the corresponding period last year.

ORL finished the second quarter of the period of the report with earnings of NIS 400 million, compared with earnings of NIS 270 million in the corresponding quarter last year.

The total revenues amounted to NIS 6,796 million in the second quarter of the period of the report, compared with NIS 4,286 million in the corresponding quarter last year.

The financing expenses in the second quarter of the period of the report, amounted to NIS 77 million, compared with NIS 21 million in the corresponding quarter last year. The high fluctuations in the financing expenses between the periods stems mainly from the impact of the devaluation/upward revaluation of the shekel vis-à-vis the dollar.

SOURCES OF FINANCING OF THE CORPORATION AND THE HEADQUARTERS COMPANIES

As at June 30, 2005, the total financial liabilities of the Corporation and its wholly owned and controlled headquarters companies (hereinafter – "the Headquarters Companies"), amounted to NIS 2,464 million.

As at June 30, 2005, the Corporation and the Headquarters Companies had investments in liquid assets of NIS 1,012 million. The amounts are invested, primarily, in short-term shekel and dollar deposits, treasury bills and corporate debentures in CPI-linked and unlinked channels, and medium-term dollar debentures.

In the period of the report the Corporation renewed credit received for financing acquisition of shares of Israel Chemicals Ltd. (ICL), in the amount of $65.5 million, of which $28 million relates to credit that was repaid in 2004 and the balance relates to the current maturities for 2005. Half of the credit is scheduled for repayment on December 31, 2010, while the other half is to be paid in quarterly installments beginning on March 31, 2007, over a period of three years.

In the period of the report one of the Headquarters Companies renewed a loan in the amount of $40 million repayable on March 31, 2008.

During the period of the report, NIS 177 million par value of convertible debentures Series 1 were converted and in consideration thereof 253 thousand of the Corporation's ordinary shares of NIS 1 par value were issued. Correspondingly, the Corporation's liabilities were reduced by NIS 184 million. In the second quarter of the period of the report, the Corporation made the first of five payments in respect of the convertible debentures Series 1, in the amount of NIS 8 million. Subsequent to the balance sheet date, NIS 5 million par value of convertible debentures Series 1 were converted into shares and, as a result, the balance of the Corporation's liability in respect of the debentures was reduced by NIS 5 million.

During the period of the report, options (Series 1) were exercised for Corporation shares such that an additional 266 thousand shares of NIS 1 par value were issued for an aggregate consideration of NIS 199 million.

Subsequent to the balance sheet date, in July 2005, the Corporation raised the amount of NIS 500 million by means of a private issuance of debentures to institutional investors. The debentures are linked to the Consumer Price Index, bear annual interest at the rate of 4.55%, repayable in 4 annual payments commencing from 2010. The debentures were rated "AA" by Ma'alot, The Israeli Securities Rating Company.

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.

THE ORL CONCESSION (cont'd)

On December 2, 2002, an arrangement (hereinafter – "the 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. During the period of the report, ORL recorded a provision in its financial statements the amount of NIS 28 million.

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.

THE ORL CONCESSION (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 Arrangement, upon expiration of all 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 prior year, 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 publication 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 Arrangement 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 that 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 execution 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 ORL CONCESSION (cont'd)

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 Social 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.

All of the respondents responded to the amended petition and in their responses they supported the Agreement that is the subject of the petition. In a hearing that was held in the Court after the period of the report, it was determined that upon the earlier of the making of a decision by the Upper Tenders Committee regarding the tender exemption and the decision of the Ministerial Committee for Social and Economic Matters, or the passage of 30 days – a supplementary notification will be issued by the State. All the other parties will be permitted to respond to this notification within 20 days of its receipt. Based on the notifications, the Court will make a decision regarding the continued handling of the petition. Up to the publication date of the financial statements, a notification as stated had not been issued, this being after the State requested extensions from the Court (of a total of 40 days) for submission of its supplementary notification.

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.

THE ORL CONCESSION (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 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 resolved, 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 ORL's at the end of the concession."

This decision of the Ministerial Committee for Social and Economic Matters received the force of a Government decision on August 12, 2004.

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 Social 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:

THE ORL CONCESSION (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 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 issuances 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 shall be conducted by the Authority, based on, among other things, valuations on behalf of the Authority."

The Decision also set forth provisions in connection with 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.

During the period of the report, ORL provided detailed information regarding all aspects of its activities to the Government Corporations Authority, based on the latter's directives by virtue of its authorities pursuant to the Privatization Decision and under law, and held discussions regarding various matters relating to the Split-Up with the Government Corporations Authority and with advisors hired by the Authority for purposes of the Split-Up.

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 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 9, 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.

On June 2, 2005, Israeli Corporation was provided with a summary response of the State of Israel to the amended petition wherein it notified that it requests that the Court reject the petition and that it supports formulating an arrangement with the Corporation, based on the following principles:
(A) The Amended Appendix C shall include a provision according to which the Corporation will sell its shares in ORL to the State within several months; (B) in exchange for the shares the State will pay the Corporation the value deriving from the average of the valuations submitted to the parties (NIS 570 million for the Corporation's shares) where this amount is linked to the Consumer Price Index and bears interest at the annual rate of 6% (commencing from July 1, 2003); (C) after the Amended Appendix C is signed dividends will be distributed by ORL to all its shareholders in the amount of $100 million. The Corporation will receive 26% of this amount and it will be offset against the consideration the Corporation is to receive; and (D) that the signature on the Amended Appendix C is subject to various approvals that the State believes are required.

The Corporation wishes to clarify that the language of the Amended Appendix C on the basis of the principles indicated by the State has not yet been formulated and as a result this agreement has not yet been signed.

As it was indicated to the Corporation, on July 27, 2005 the Committee of Ministers for Social and Economic Matters made the following decision: "Further to Government Decision No. 2423 (HC/107) dated August 12, 2004, to instruct the Accountant General to sign Appendix C of the Principles Arrangement between the Government and Oil Refineries Ltd. (ORL) and Israel Corporation, attached hereto, and to authorize the Accountant General to make changes that are not material in Appendix C, to the extent this is necessary; that stated in this decision supersedes Section 2 and Appendix A of Decision No. 2423 (HC/107) as stated above".

THE ORL CONCESSION (cont'd)

It was also indicated to the Corporation that on August 2, 2005, the Government secretary notified the Minister of Finance and the Chairman of the Ministerial Committee for Social and Economic Matters that: "I am pleased to notify you that, by virtue of Government Decision No. 3066 dated January 16, 2005, dealing with the authorities of the Ministerial Committee for Social and Economic Matters, the Prime Minister has approved the request of the Minister of National Infrastructures to appeal Decision No. HC/159 dated July 27, 2005 to the Government, dealing with the matter of Oil Refineries Ltd. – signature on Appendix C and agreement in principle between the State and ORL and Israeli Corporation. Further to the above, I call attention to Section 37(C) of the Government Work Articles providing that execution of the decision regarding which an appeal was filed – will be stayed until a hearing on the appeal is held."

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 assessment.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT

During the period of the report, there was no very material change with respect to market risks and their management as they were reported in the Directors' Report as at December 31, 2004.

UPDATE REGARDING DESCRIPTION OF THE CORPORATION'S BUSINESS

During the period of the report, there was no material change compared with that described in the periodic report for 2004.

PEER REVIEW

On July 28, 2005, the Securities Authority published a directive, pursuant to Section 36(A)(B) of the Securities Law, 1968, which requires disclosure regarding provision of consent to perform a "peer review" the goal of which, according to the directive, is to initiate a control process over the work of the auditing accounting firms and to examine the existence of the required procedures in the course of the audit work performed by them, something that will bring about an improvement in the capital market. The Corporation and its Board of Directors see performance of a peer review as a positive step and, accordingly, the Corporation is prepared to cooperate with respect to advancement of the process. Nonetheless, consent to participate in the peer review, in the language presently required, involves significant legal issues relating to, among other things, protection of the confidentiality of the information the Corporation makes available to the auditors, matters involving prevention of conflicts of interest and the responsibility of the reviewers to the Corporation in a case of their failure to safeguard the confidentiality of the information. As at the publication date of this report, a satisfactory solution has not yet been found to these matters in the review participation documents provided to the Corporation. Therefore, the Board of Directors has decided, at this stage, to hold back the consent required from the Corporation for performance of the peer review until such time as the said issues are resolved.

This matter was not discussed at the Corporation's General Meeting at which the its auditors were appointed since the last General Meeting was held prior to publication of the directive.

The Corporation is satisfied with the appropriateness of the audit of its financial statements performed by its auditors due to the fact, among others, that they are one of the four largest international accounting firms, which have defined work procecdures.

EVENTS OCCURRING DURING THE PERIOD OF THE REPORT AND THEREAFTER

1. In January 2005, Mr. Gilad Shavit was appointed as Deputy CEO.

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

EVENTS OCCURRING DURING THE PERIOD OF THE REPORT AND THEREAFTER (cont'd)

3. In April 2005, Mr. Russel Ellwanger, was appointed as CEO of Tower and Mr. Udi Hilman serves as the acting Chairman of the Board of Directors of Tower.

4. In February 2005, Mr. Udi Angel ceased serving as the Chairman of the Board of Directors of ZIM and in his place Mr. Idan Ofer was appointed.

5. On April 14, 2005, the Corporation distributed a dividend in the amount of NIS 220 million.

6. In the collective agreement signed in 1978 with employees of the subsidiary, Dead Sea Works Ltd. (hereinafter – "DSW"), an early retirement arrangement was provided to employees working at Sdom. As a result of a decision of the National Labor Court regarding cancellation of the said early retirement arrangement, DSW and the Employees' Committee held discussions and, as a result thereof, on July 19, 2005, a collective agreement was signed conveying to DSW employees at Sdom, who are covered by the agreement, the right to take early retirement, upon the fulfillment of certain conditions, beginning from age 60.

7. Montreal Protocol

   Under the accord known as the "Montreal Protocol", to which Israel is a signatory (and which was adopted as part of Israel's local legislation), the manufacture and consumption of methyl bromide for soil fumigation in developed countries was gradually reduced to zero by the year 2005, except for "critical uses" approved by the parties to the accord from time to time. The quantities approved for production and sale in 2005 are similar to those approved for 2003 and 2004, except in western Europe, where the member countries decided voluntarily to reduce quantities to about 65% compared with respect to 2004.

   Based on publications of UNEP (United Nations Environment Programme), it was decided that in 2006 a cutback of 20% will be made from the quantities approved for production and sale in 2005 for critical uses in developed countries, however a final decision has not yet been made regarding the matter.

   Sales in the period of the report of agricultural products, the use of which will be prohibited if not approved as critical uses in the future, amounted to approximately $11 million, and the operating income recorded in respect thereof was about $4 million.

   Commencing January 1, 2005, a one-time reduction of 20% was made in the quantity of methyl bromide that may be sold to developing countries for soil fumigation. This quota will remain in effect until 2015, after which the quantity will be reduced to zero, subject to critical uses as approved by the parties to the accord from time to time.

   Methyl bromide has other uses apart from soil fumigation, for which production and consumption quantities are unlimited, such as, pre-shipment treatment and quarantine, as a raw material or intermediate material for the manufacture of another material or product (feedstock). These uses are not limited with respect to production quantities and uses by the Montreal Protocol.

   ICL Industrial Products intends to remain in the soil fumigation field even after the ban on use of methyl bromide, as stated above. Accordingly, in recent years ICL Industrial Products has been making efforts in the development and marketing of substitute and complementary products for methyl bromide in this important market.

   Total sales of agricultural products in the period of the report for uses which are not restricted under the Montreal Protocol and to developing countries, were about $21 million, and the operating income recorded in respect thereof was about $8 million.

8. Regarding investment arrangements in Tower and the Corporation's commitment, see Section on Tower.

9. In May 2005, the Corporation was included in the Maala Community Index and was ranked fifth.

EVENTS OCCURRING DURING THE PERIOD OF THE REPORT AND THEREAFTER (cont'd)

10. In May 2005, the Corporation's Board of Directors approved extending, for an unlimited period of time, the agreement under which the Corporation receives management services from the Corporation's CEO, by means of a wholly owned company of the CEO. It was also provided that each party has the right to end the agreement with an advance of six months.

11. Subsequent to the balance sheet date, on July 25, 2005, the Law for Amendment of the Income Tax Ordinance (No. 147 and Temporary Order), 2005 was passed, pursuant to which the Companies Tax rate will be gradually reduced in the following manner: in the 2006 tax year a tax rate of 31% will apply, in 2007 – 29%, in 2008 – 27%, in 2009 – 26%, and in 2010 and thereafter, a tax rate of 25% will apply. In addition, commencing from 2010, upon reduction of the Companies Tax rate to 25%, every real capital gain will be subject to tax at the rate of 25%.

    The current and deferred taxes as at June 30, 2005, were calculated in accordance with the tax rates that were in effect prior to the said amendment. The expected impact of the reduction in the tax rates on the balances of the deferred taxes as at June 30, 2005 is a decrease in the taxes on income in the amount of NIS 192 million. This impact will be recorded in the financial statements as at September 30, 2005.

12. On August 25, 2005, the Corporation's Board of Directors decided to distribute a cash dividend in the amount of NIS 75 million. The dividend is to be distributed on September 21, 2005.

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

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

"We direct attention to that stated in Note 4 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 Government's decision to sell ORL's oil refinery in Ashdod and regarding ORL's assessments with respect to the material impacts, which cannot be estimated at this stage, of the aforementioned matters on its financial position".

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

Idan Ofer **Chairman of the Board of Directors**	**Yossi Rosen** **Chief Executive Officer**

August 25, 2005

The Board of Directors
Israel Corporation Limited

Dear Sirs:

Review of the unaudited interim consolidated financial statements as at June 30, 2005

At your request, we have reviewed the interim consolidated balance sheet of Israel Corporation Ltd. as at June 30, 2005, and the related consolidated statement of earnings, the statement of changes shareholders' equity and the consolidated statement of cash flows for the six-month and three-month periods then ended.

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

We received review reports of other auditors, regarding the interim financial statements of certain subsidiaries, whose assets constitute 14.7% of the total consolidated assets as at June 30, 2005 and whose revenues constitute 17.8% and 15.2% of the total consolidated revenues for the six-month and three-month periods then ended. Furthermore, we received reports of other auditors of affiliated companies, the investment in which, as at June 30, 2005, is approximately NIS 694 million and the Corporation's equity in their earnings is NIS 22 million and NIS 26 million for the six-month and three-month periods ended on that date.

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

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

"We direct attention to that stated in Note 4 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 Government's decision to sell ORL's oil refinery in Ashdod and regarding ORL's assessments with respect to the material impacts, which cannot be estimated at this stage, of the aforementioned matters on its financial position".

Sincerely,

Somekh Chaikin
Certified Public Accountants (Isr.)

August 25, 2005

Consolidated Balance Sheets as at

	As at June 30		As at December 31
	2005	***2004**	**2004**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS millions	**NIS millions**	**NIS millions**
Current assets			
Cash and cash equivalents	**1,129**	673	1,217
Marketable securities	**1,396**	499	820
Short-term loans and deposits	**516**	588	675
Trade receivables	**3,152**	2,373	2,886
Other receivables	**729**	799	635
Inventories	**2,472**	2,260	2,233
	9,394	7,192	8,466
Long-term investments, loans and receivables			
Investments in investee companies	**863**	928	880
Investments in other companies	**25**	260	17
Long-term deposits, loans and receivables	**194**	142	177
Deferred taxes	**74**	135	128
Inventories	**150**	142	135
	1,306	1,607	1,337
Fixed assets	**11,808**	11,527	11,410
Other assets and deferred expenses	**788**	837	771
Assets attributable to discontinued operations	**59**	403	74
	23,355	21,566	22,058

Idan Ofer	**Yossi Rosen**	**Avisar Paz**
Chairman of the Board of Directors	Chief Executive Officer	Chief Financial Officer

August 25, 2005

* Reclassified, mainly due to discontinued operations.

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

	As at June 30		As at December 31
	2005	*2004	2004
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current liabilities			
Short-term credit from banks and others	**1,983**	2,795	2,991
Trade payables	**1,889**	1,613	1,704
Other payables	**2,262**	1,852	2,211
	6,134	6,260	6,906
Long-term liabilities			
Long-term liabilities to banks and others	**6,064**	6,563	5,592
Provision for reclamation and disposal of waste	**127**	110	122
Debentures convertible into shares of the Corporation	**-**	190	-
Debentures	**205**	201	193
Deferred taxes	**1,796**	1,489	1,520
Liabilities for employee severance benefits, net	**1,207**	1,024	1,200
	9,399	9,577	8,627
Debentures convertible into shares of the Corporation and shares of a subsidiary	**22**	282	336
Minority interest	**3,099**	2,273	2,527
Liabilities attributable to discontinued operations	**41**	376	50
Shareholders' equity	**4,660**	2,798	3,612
	23,355	21,566	22,058

* Reclassified, mainly due to discontinued operations.

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

Consolidated Statements of Earnings for the

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2005	2004	2005	2004	2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Sales, shipping and services	**12,636**	10,988	**6,658**	5,732	23,499
Cost of sales, shipping and services	**9,534**	8,618	**5,080**	4,457	18,170
Gross profit	**3,102**	2,370	**1,578**	1,275	5,329
Selling, transport and marketing expenses	**963**	938	**515**	477	1,925
General and administrative expenses	**474**	429	**240**	224	937
Research and development expenses, net	**68**	67	**33**	32	144
	1,505	1,434	**788**	733	3,006
Operating earnings	**1,597**	936	**790**	542	2,323
Financing expenses, net	**(61)**	(177)	**(15)**	(105)	(347)
Other income, net	**289**	180	**65**	142	281
Earnings before taxes	**1,825**	939	**840**	579	2,257
Income tax	**(562)**	(175)	**(257)**	(35)	(546)
Earnings after taxes	**1,263**	764	**583**	544	1,711
Group's equity in earnings (losses) of affiliates, net	**(8)**	74	**(18)**	47	31
Minority interest in earnings of subsidiaries, net	**(443)**	(252)	**(232)**	(171)	(574)
Net earnings from continuing operations	**812**	586	**333**	420	1,168
Earnings (loss) from discontinued operations, net	**(6)**	(26)	**(6)**	(11)	208
Net earnings for the period	**806**	560	**327**	409	1,376
	NIS	NIS	NIS	NIS	NIS
Basic and diluted earnings per share of NIS 1 par value					
Earnings from continuing operations, net	**108.04**	84.58	**44.32**	60.61	157.64
Earnings (loss) from discontinued operations	**(0.76)**	(3.75)	**(0.76)**	(1.59)	27.46
Earnings per share	**107.28**	80.83	**43.56**	59.02	185.10

* Reclassified, mainly due to discontinued operations.

The accompanying 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 investee companies	Dividend proposed subsequent to the balance sheet date	Retained earnings	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the six-month period ended June 30, 2005 (unaudited)						
Balance as at the beginning of the period	**1,503**	**-**	**(58)**	**220**	**1,947**	**3,612**
Net earnings for the period	**-**	**-**	**-**	**-**	**806**	**806**
Dividend paid	**-**	**-**	**-**	**(220)**	**-**	**(220)**
Dividend proposed after the balance sheet date	**-**	**-**	**-**	**75**	**(75)**	**-**
Adjustments from translation of financial statements	**-**	**-**	**79**	**-**	**-**	**79**
Conversion of debentures into shares	**184**	**-**	**-**	**-**	**-**	**184**
Exercise of options	**199**	**-**	**-**	**-**	**-**	**199**
Balance as at the end of the period	**1,886**	**-**	**21**	**75**	**2,678**	**4,660**

	Share capital and capital reserves	Shares of the Corporation held by a subsidiary	Adjustments arising from translation of financial statements of investee companies	Dividend proposed subsequent to the balance sheet date	Retained earnings	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the six-month period ended June 30, 2004 (unaudited)						
Balance as at the beginning of the period	1,467	(10)	(82)	-	795	2,170
Net earnings for the period	-	-	-	-	560	560
Adjustments from translation of financial statements	-	-	40	-	-	40
Conversion of debentures into shares	23	-	-	-	-	23
Issuance of capital	(5)	5	-	-	-	-
Realization of reserves due to sale of investment	-	-	5	-	-	5
Balance as at the end of the period	1,485	(5)	(37)	-	1,355	2,798

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

	Share capital and capital reserves	Shares of the Corporation held by a subsidiary	Adjustments arising from translation of financial statements of investee companies	Dividend proposed subsequent to the balance sheet date	Retained earnings	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the three-month period ended June 30, 2005 (unaudited)						
Balance as at the beginning of the period	**1,718**	**-**	**(69)**	**-**	**2,426**	**4,075**
Net earnings for the period	**-**	**-**	**-**	**-**	**327**	**327**
Dividend proposed after the balance sheet date	**-**	**-**	**-**	**75**	**(75)**	**-**
Adjustments from translation of financial statements	**-**	**-**	**90**	**-**	**-**	**90**
Conversion of debentures into shares	**87**	**-**	**-**	**-**	**-**	**87**
Exercise of options	**81**	**-**	**-**	**-**	**-**	**81**
Balance as at the end of the period	**1,886**	**-**	**21**	**75**	**2,678**	**4,660**

	Share capital and capital reserves	Shares of the Corporation held by a subsidiary	Adjustments arising from translation of financial statements of investee companies	Dividend proposed subsequent to the balance sheet date	Retained earnings	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the three-month period ended June 30, 2004 (unaudited)						
Balance as at the beginning of the period	1,466	(9)	(25)	-	946	2,378
Net earnings for the period	-	-	-	-	409	409
Adjustments from translation of financial statements	-	-	(13)	-	-	(13)
Conversion of debentures into shares	23	-	-	-	-	23
Issuance of capital	(4)	4	-	-	-	-
Realization of reserves due to sale of investment	-	-	1	-	-	1
Balance as at the end of the period	1,485	(5)	(37)	-	1,355	2,798

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

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

	Share capital and capital reserves	Shares of the Corporation held by a subsidiary	Adjustments arising from translation of financial statements of investee companies	Dividend proposed subsequent to the balance sheet date	Retained earnings	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the year ended December 31, 2004 (audited)						
Balance as at the beginning of the year	1,467	(10)	(82)	-	795	2,170
Net earnings for the year	-	-	-	-	1,376	1,376
Dividend proposed subsequent to the balance sheet date	-	-	-	220	(220)	-
Adjustments from translation of financial statements	-	-	46	-	-	46
Conversion of debentures into shares	49	-	-	-	-	49
Issuance of capital	(10)	10	-	-	-	-
Realization of reserves due to sale of investment	-	-	(29)	-	-	(29)
Change in accounting method in affiliated company	(3)	-	7	-	(4)	-
Balance as at the end of the year	1,503	-	(58)	220	1,947	3,612

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

Consolidated Statements of Cash Flows for the

	For the six months ended		For the three months ended		For the year ended
	June 30 2005	June 30 2004	June 30 2005	June 30 2004	December 31 2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flows generated by operating activities:					
Net earnings for the period	**806**	560	**327**	409	1,376
Adjustments to reconcile net earnings to net cash flows generated by operating activities (A)	**720**	636	**383**	248	1,551
Net cash inflow generated by continuing operating activities	**1,526**	1,196	**710**	657	2,927
Net cash inflow (outflow) generated by discontinued operations – operating activities	**-**	(8)	**-**	19	(17)
Net cash inflow generated by operating activities	**1,526**	1,188	**710**	676	2,910
Cash flows generated by investing activities:					
Investments in investee and other companies	**(26)**	(7)	**(13)**	(4)	(29)
Acquisition of fixed assets and other assets	**(748)**	(808)	**(408)**	(469)	(1,875)
Long-term loans granted	**(40)**	(9)	**(4)**	(11)	(57)
Sale (acquisition) of marketable securities, net	**(59)**	199	**27**	3	(38)
Investment grant in respect of fixed assets	**13**	11	**4**	5	17
Proceeds from sale of fixed and other assets	**546**	345	**43**	339	687
Collection of long-term loans	**21**	38	**10**	8	48
Granting of short-term loans and deposits in banks, net	**(355)**	(244)	**(254)**	(193)	(388)
Proceeds from sale of investments in investee and other companies	**2**	13	**-**	4	457
Acquisition of initially consolidated subsidiaries (B)	**-**	(19)	**-**	-	(19)
Proceeds from realization of investments in previously consolidated subsidiaries (C)	**-**	89	**-**	89	89
Net cash outflow generated by continuing investing activities	**(646)**	(392)	**(595)**	(229)	(1,108)
Net cash inflow (outflow) generated by discontinued operations – investing activities	**-**	(5)	**-**	-	375
Net cash outflow generated by investing activities	**(646)**	(397)	**(595)**	(229)	(733)

* Reclassified, mainly due to discontinued operations.

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

Consolidated Statements of Cash Flows for the (cont'd)

	For the six months ended		For the three months ended		For the year ended
	June 30 2005	June 30 2004	June 30 2005	June 30 2004	December 31 2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flows generated by financing activities:					
Issuance of convertible debentures and receipt of long-term loans	**1,769**	1,840	**345**	482	2,594
Repayment of long-term liabilities	**(2,404)**	(1,152)	**(1,066)**	(493)	(2,004)
Repayment of short-term loans	**(301)**	(881)	**(354)**	(161)	(1,329)
Exercise of options in the Corporation and in a subsidiary	**199**	2	**81**	2	4
Dividend paid	**(220)**	-	**(220)**	-	-
Dividend paid to minority shareholders of subsidiaries	**(77)**	(54)	**(77)**	(54)	(194)
Net cash inflow (outflow) generated by continuing financing activities	**(1,034)**	(245)	**(1,291)**	(224)	(929)
Net cash outflow generated by discontinued operations – financing activities	**-**	(4)	**-**	(7)	(132)
Net cash outflow generated by financing activities	**(1,034)**	(249)	**(1,291)**	(231)	(1,061)
Translation differences of cash balances in autonomous investees	**66**	(16)	**53**	(20)	(49)
Increase (decrease) in cash and cash equivalents	**(88)**	526	**(1,123)**	196	1,067
Increase (decrease) in cash and cash equivalents allocable to discontinued operations	**-**	8	**-**	(4)	11
Increase (decerase) in cash and cash equivalents allocable to continuing activities	**(88)**	534	**(1,123)**	192	1,078
Balance of cash and cash equivalents at the beginning of the period	**1,217**	139	**2,252**	481	139
Balance of cash and cash equivalents at the end of the period	**1,129**	673	**1,129**	673	1,217

* Reclassified, mainly due to discontinued operations.
The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Cash Flows for the (cont'd)

	For the six months ended		For the three months ended		For the year ended
	June 30 2005	June 30 2004	June 30 2005	June 30 2004	December 31 2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
A. Adjustments to reconcile net earnings to net cash flows generated by continuing operating activities					
Income and expenses not involving cash flows:					
Group's equity in results of affiliates, net, less dividend	**40**	(61)	**47**	(37)	(47)
Minority interest in earnings of subsidiaries, net	**443**	252	**232**	171	574
Depreciation and amortization	**534**	559	**271**	278	1,269
Deferred taxes, net	**259**	(18)	**122**	(107)	33
Capital gains, net	**(298)**	(187)	**(73)**	(147)	(592)
Erosion of short and long-term loans granted and increase in value of marketable securities, net	**(11)**	(6)	**(3)**	(5)	(22)
Erosion of loans received and of short-term and long-term liabilities, net	**(19)**	15	**(11)**	12	88
Increase in liability for employee severance benefits, net	**(15)**	49	**(26)**	22	296
Loss (earnings) from discontinued operations	**6**	26	**6**	11	(208)
	939	629	**565**	198	1,391
Changes in asset and liability items:					
Increase in trade and other receivables	**(193)**	(281)	**(249)**	(162)	(687)
Decrease (increase) in inventories	**(142)**	134	**11**	43	126
Increase (decrease) in uncompleted voyages, net	**(2)**	8	**123**	65	142
Increase (decrease) in trade and other payables	**115**	138	**(69)**	96	559
Increase in provision for reclamation and disposal of waste	**3**	8	**2**	8	20
	(219)	7	**(182)**	50	160
	720	636	**383**	**248**	**1,551**

* Reclassified, mainly due to discontinued operations.

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

Consolidated Statements of Cash Flows for the (cont'd)

	For the six months ended		For the three months ended		For the year ended
	June 30 2005	June 30 2004	June 30 2005	June 30 2004	December 31 2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
B. Acquisition of initially consolidated subsidiaries					
Working capital (excluding cash and cash equivalents)	-	642	-	-	642
Investment in affiliated company that became a subsidiary	-	485	-	-	485
Fixed assets, other assets and long-term receivables	-	(3,887)	-	-	(3,887)
Minority interest	-	26	-	-	26
Deferred taxes	-	418	-	-	418
Long-term liabilities	-	2,297	-	-	2,297
	-	(19)	-	-	(19)
C. Proceeds from realization of previously consolidated subsidiaries					
Working capital (excluding cash and cash equivalents)	-	10	-	10	10
Investments, fixed assets, other assets and long-term receivables	-	54	-	54	54
Deferred taxes	-	9	-	9	9
Long-term liabilities	-	(5)	-	(5)	(5)
Capital gain on sale of investment	-	21	-	21	21
	-	89	-	89	89
D. Non-cash transactions					
Proceeds from sale of investments in investee companies	**56**	-	**56**	-	-
Acquisition of fixed assets on supplier credit	**16**	**18**	-	18	57
Conversion of debentures into shares of the Corporation and of a subsidiary	**351**	**23**	**87**	23	208

* Reclassified, mainly due to discontinued operations.

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

Note 1 - Reporting Principles and Accounting Policies

A. General

1. These interim financial statements have been prepared in accordance with generally accepted accounting principles applicable to the preparation of interim period financial statements in accordance with Standard No. 14 of the Israeli Accounting Standards Board and in accordance with the provisions of Section D of the Securities Regulations (Immediate and Periodic Reports), 1970.

2. The significant accounting policies applied in the preparation of these financial statements are consistent with those applied in the financial statements as at December 31, 2004, except for that stated in B. below.

3. These financial statements have been prepared in a condensed format as at June 30, 2005 and for the six-month and three-month periods then ended. The financial statements should be read in conjunction with the annual financial statements as at December 31, 2004 and for the year then ended and the related notes.

B. First time application of accounting standard No. 19 "Taxes on Income"

In July 2004, the Standards Board (hereinafter – "the 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. The impact of the first-time application of the Standard on the Corporation's results of operations, financial position and cash flows is not material.

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

In August 2005 the Israel Accounting Standards Board published Accounting Standard No. 22, "Financial Instruments: Disclosure and Presentation". The Standard provides the rules for presentation of financial instruments in the financial statements and details the proper disclosure required in respect thereof. In addition, the Standard provides the method for classifying financial instruments as financial liabilities and as shareholders' equity, for classifying the interest, dividends, losses and gains related thereto and the circumstances in which financial assets and financial liabilities should be offset. The new Standard applies to periods beginning on January 1, 2006 or thereafter. The Standard provides that it is to be adopted on a prospective ("from here on") basis. The comparative data presented in the financial statements for periods beginning on the date the Standard comes into effect will not be restated.

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

C. Disclosure of the effect of new accounting standards in the period prior to their application (cont'd)

The expected impact of the first-time application of the Standard on the Corporation's financial statements is: separation of convertible debentures into a liability component and a capital component (resulting in an impact on the shareholders' equity, long-term liabilities and financing expenses) and elimination of provisions for losses in respect of options to employees in investee companies.

In the Corporation's estimation, application of the this Standard is not expected to have a material impact on its financial statements.

Note 2 - Rates of Changes in the Consumer Price Index and the Dollar Exchange Rate

Presented below is the rate of change in the Consumer Price Index and the representative rate of exchange of the U.S. dollar in the reported periods:

	CPI	Representative exchange rate of the U.S. $
	%	%
During the six-month period ended June 30, 2005	**0.50**	**6.17**
During the six-month period ended June 30, 2004	1.40	2.69
During the three-month period ended June 30, 2005	**1.10**	**4.88**
During the three-month period ended June 30, 2004	1.51	(0.68)
During the year ended December 31, 2004	1.21	(1.62)

Note 3 - Investments and Supplementary Information

A. Tower Semiconductor Ltd. (hereinafter – Tower)

1. Pursuant to the credit agreement with the banks, Tower is required to comply with certain conditions and financial covenants (hereinafter – "the Financial Covenants"). In January 2005, Tower and the lending banks signed a letter of waiver in accordance with which the banks waived Tower's non-compliance with some of the Financial Covenants in the fourth quarter of 2004. In addition, the waiver letter signed also includes an update of the Financial Covenants that Tower must comply with during 2005.

   In light of Tower's continuing losses, negative cash flows from operating activities and anticipated cash deficiency, Tower is endeavoring to obtain the financing necessary for its continuing operations in the short run, and is also taking steps to reduce its current liabilities and to cutback costs, including by streamlining its workforce.

   In July 2005, Tower and the banks signed an amendment to the credit agreements (hereinafter – "the Amendment to the Agreement"), pursuant to which the banks will provide financing of up to $30 million subject to the same amount being raised by Tower from investors. Certain of Tower's shareholders committed to invest the amount of $25.5 million in the framework of that stated above, of which $20 million by the Corporation, as part of an issuance of rights

Note 3 - Investments and Supplementary Information (cont'd)

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

In the Amendment to the Agreement, the Financial Covenants were also updated in order to conform them to Tower's work plan.

In November 2003, the Corporation committed to Tower's lending banks to provide a security net to Tower in the amount of $50 million. As at June 30, 2005, the balance of the liabilities is $14 million. Pursuant to the Amendment to the Agreement, the Corporation's investment in the amount of at least $14 million in the Rights Issuance will be considered as part of the commitment to provide a security net and thus the commitment will come to an end.

In accordance with the credit agreement with the banks, if as the result of any violation of the agreement the banks choose to accelerate Tower's obligations, Tower will be obligated, 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 the remedies available to them in the credit agreement, including realization of the liens recorded on Tower's assets.

2. Pursuant to the original approval from the Investments Center, Tower was supposed to complete the investment in FAB2 by December 31, 2005. Tower is holding discussions with the Investments Center for purposes of receiving an extension of the period beyond December 31, 2005. Since the examination process is in only the initial stages, Tower's Management is unable to estimate the chances that the approval will be received as stated.

3. In the period of the report, the Group included its share of Tower's losses in the amount of NIS 97 million and at the same time, it reduced the provision for decline in value of the investment in Tower (which was recorded in 2004) by NIS 48 million.

B. In the first quarter of the period of the report, ZIM sold three ships, for a consideration of $111 million. The ships were leased to ZIM by means of a bare boat lease for a period of five to six years. The after-tax capital gain realized by ZIM totals $31 million, and Israel Corporation's share of the gain is approximately NIS 135 million.

C. As at the balance sheet date, the Corporation's investment in Oil Refineries Ltd. (hereinafter – "ORL") based on the equity method of accounting, is greater than 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 4).

As at the balance sheet date, the Corporation set its investment in ORL at the exercise price of the option, in the amount of NIS 616 million, which is NIS 293 million less than the amount of the investment based on the equity method of accounting.

Note 3 - Investments and Supplementary Information (cont'd)

D. 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 CEO and 2,428 shares were issued to employees and officers of the Corporation and of its subsidiaries. In accordance with an approval of the Assessing Officer, issuance of the shares pursuant to the Plan is subject to the provisions of Section 102 of the Income Tax Ordinance, under the ordinary income track of issuance of shares by means of a trustee. The shares will be restricted in the hands of the trustee until December 31, 2006. The price per share on the stock exchange on the issuance date of the shares was NIS 1,098.

E. On May 15, 2005, the Corporation's Board of Directors decided that the Corporation will issue to H.L. Management and Consultants (1986) Ltd. a wholly owned subsidiary of the Corporation (hereinafter – "Management and Consultants") 70,300 of the Corporation's shares of NIS 1 par value, which will be used by Management and Consultants in the framework of a new plan it adopted on that date for compensating its employees and officers (hereinafter – "the Plan"). Pursuant to the Plan, Management and Consultants will issue options to employees and officers for acquisition of the Corporation's shares, which will be issued as stated to Management and Consultants. According to the Plan, the Corporation's CEO, who also serves as the CEO of Management and Consultants, was issued 20,000 options while the balance of 50,300 options was issued to employees and officers of Management and Consultants.

The securities issued to Management and Consultants are ordinary shares of NIS 1 par value of the Corporation. The options being offered to the offerees are not marketable and for each such option the offeree will be entitled to acquire from Management and Consultants one ordinary share of NIS 1 par value of the Corporation subject to the terms of the Plan.

Entitlement to receive options will vest in three increments: one-third on the second business day after advance approval by the Assessing Officer, an additional one-third on December 31, 2005 and the balance on December 31, 2006.

The exercise price of each option is the equivalent of NIS 880 (which is equal to the average stock market price of a Corporation share during the 30 trading days preceding December 31, 2004, less a dividend distributed in the beginning of 2005), plus linkage differences to the CPI beginning the index for November 2004 and up to the date of exercise.

The options included in the first increment will be exercisable commencing December 31, 2007 and up to December 31, 2009; the options included in the second increment will be exercisable commencing December 31, 2008 and up to December 31, 2010; and the options included in the third increment will be exercisable commencing December 31, 2008 and up to December 31, 2010.

In addition, rules were provided for a case of termination of the service or employment of the offerees.

On the exercise date of the options, the offerees will be entitled to that quantity of shares determined based on the value of the benefit.

The economic value of an option computed based on the Black and Scholes formula is NIS 429.21 for the first increment, NIS 443.79 for the second increment and NIS 457.96 for the third increment.

Note 3 - Investments and Supplementary Information (cont'd)

F. In May 2005, the Corporation's Board of Directors approved extending for an unlimited period of time the agreement under which the Corporation receives management services from the Corporation's CEO, by means of a wholly owned company of the CEO. It was also provided that each party has the right to end the agreement with an advance of six months.

G. In the second quarter of the period of the report,, an affiliated company, Oren Semiconductor Inc. (hereinafter – "Oren") signed an agreement with Zoran Corporation (hereinafter – "Zoran") pursuant to which Zoran will acquire all of Oren's shares from its shareholders.

The value of the consideration to the Group in cash and in shares of Zoran amounts to NIS 56 million. The after-tax capital gain comes to NIS 43 million.

H. During the period of the report, NIS 177 million par value of convertible debentures were converted and in consideration thereof 253,404 of the Corporation's ordinary shares were issued. Subsequent to the balance sheet date, NIS 5 million par value of convertible debentures were converted and in consideration thereof 6,664 of the Corporation's ordinary shares were issued.

During the period of the report, 265,734 options (Series 1) of the Corporation were exercised for 265,734 of the Corporation's ordinary shares for a consideration of NIS 199 million. The remaining 170 options expired.

I. In the collective agreement signed in 1978 with employees of the subsidiary, Dead Sea Works Ltd. (hereinafter – "DSW"), an early retirement arrangement was provided to employees working at Sdom. As a result of a decision of the National Labor Court regarding cancellation of the said early retirement arrangement, DSW and the Employees' Committee held discussions and, as a result thereof, on July 19, 2005, a collective agreement was signed conveying to DSW employees at Sdom, who are covered by the agreement, the right to take early retirement, upon the fulfillment of certain conditions, beginning from age 60.

J. Subsequent to the balance sheet date, in July 2005, the Corporation raised the amount of NIS 500 million by means of a private issuance of debentures to institutional investors. The debentures are linked to the Consumer Price Index, bear annual interest at the rate of 4.55%, repayable in 4 annual payments commencing from 2010. The debentures were rated "AA" by Ma'alot, The Israeli Securities Rating Company.

K. Subsequent to the balance sheet date, on July 25, 2005, the Law for Amendment of the Income Tax Ordinance (No. 147 and Temporary Order), 2005 was passed, pursuant to which the Companies Tax rate will be gradually reduced in the following manner: in the 2006 tax year a tax rate of 31% will apply, in 2007 – 29%, in 2008 – 27%, in 2009 – 26%, and in 2010 and thereafter, a tax rate of 25% will apply. In addition, commencing from 2010, upon reduction of the Companies Tax rate to 25%, every real capital gain will be subject to tax at the rate of 25%.

The current and deferred taxes as at June 30, 2005, were calculated in accordance with the tax rates that were in effect prior to the said amendment. The expected impact of the reduction in the tax rates on the balances of the deferred taxes as at June 30, 2005 is a decrease in the taxes on income in the amount of NIS 192 million. This impact will be recorded in the financial statements as at September 30, 2005.

Note 4 - 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 (hereinafter – "the 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).

Note 4 - ORL Concession (cont'd)

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. During the period of the report, ORL recorded a provision in its financial statements the amount of NIS 28 million.

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 Arrangement, upon expiration of all 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.

Note 4 - ORL Concession (cont'd)

In the prior year, 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 publication 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 Arrangement 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 that 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 execution 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 4 - ORL Concession (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 Social 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.

All of the respondents responded to the amended petition and in their responses they supported the Agreement that is the subject of the petition. In a hearing that was held in the Court after the period of the report, it was determined that upon the earlier of the making of a decision by the Upper Tenders Committee regarding the tender exemption and the decision of the Ministerial Committee for Social and Economic Matters, or the passage of 30 days – a supplementary notification will be issued by the State. All the other parties will be permitted to respond to this notification within 20 days of its receipt. Based on the notifications, the Court will make a decision regarding the continued handling of the petition. Up to the publication date of the financial statements, a notification as stated had not been issued, this being after the State requested extensions from the Court (of a total of 40 days) for submission of its supplementary notification.

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 4 - ORL Concession (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 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.

Note 4 - ORL Concession (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 resolved, 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 4 - ORL Concession (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 ORL's at the end of the concession."

This decision of the Ministerial Committee for Social and Economic Matters received the force of a Government decision on August 12, 2004.

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").

Note 4 - ORL Concession (cont'd)

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 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 issuances 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.

Note 4 - ORL Concession (cont'd)

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 shall be conducted by the Authority, based on, among other things, valuations on behalf of the Authority."

The Decision also set forth provisions in connection with 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.

During the period of the report, ORL provided detailed information regarding all aspects of its activities to the Government Corporations Authority, based on the latter's directives by virtue of its authorities pursuant to the Privatization Decision and under law, and held discussions regarding various matters relating to the Split-Up with the Government Corporations Authority and with advisors hired by the Authority for purposes of the Split-Up.

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 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 9, 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.

On June 2, 2005, Israeli Corporation was provided with a summary response of the State of Israel to the amended petition wherein it notified that it requests that the Court reject the petition and that it supports formulating an arrangement with the Corporation, based on the following principles:
(A) The Amended Appendix C shall include a provision according to which the Corporation will sell its shares in ORL to the State within several months; (B) in exchange for the shares the State will pay the Corporation the value deriving from the average of the valuations submitted to the parties (NIS 570 million for the Corporation's shares) where this amount is linked to the Consumer Price Index and bears interest at the annual rate of 6% (commencing from July 1, 2003); (C) after the Amended Appendix C is signed dividends will be distributed by ORL to all its shareholders in the amount of $100 million. The Corporation will receive 26% of this amount and it will be offset against the consideration the Corporation is to receive; and (D) that the signature on the Amended Appendix C is subject to various approvals that the State believes are required.

The Corporation wishes to clarify that the language of the Amended Appendix C on the basis of the principles indicated by the State has not yet been formulated and as a result this agreement has not yet been signed.

Note 4 - ORL Concession (cont'd)

As it was indicated to the Corporation, on July 27, 2005 the Committee of Ministers for Social and Economic Matters made the following decision: "Further to Government Decision No. 2423 (HC/107) dated August 12, 2004, to instruct the Accountant General to sign Appendix C of the Principles Arrangement between the Government and Oil Refineries Ltd. (ORL) and Israel Corporation, attached hereto, and to authorize the Accountant General to make changes that are not material in Appendix C, to the extent this is necessary; that stated in this decision supersedes Section 2 and Appendix A of Decision No. 2423 (HC/107) as stated above".

It was also indicated to the Corporation that on August 2, 2005, the Government secretary notified the Minister of Finance and the Chairman of the Ministerial Committee for Social and Economic Matters that: "I am pleased to notify you that, by virtue of Government Decision No. 3066 dated January 16, 2005, dealing with the authorities of the Ministerial Committee for Social and Economic Matters, the Prime Minister has approved the request of the Minister of National Infrastructures to appeal Decision No. HC/159 dated July 27, 2005 to the Government, dealing with the matter of Oil Refineries Ltd. – signature on Appendix C and agreement in principle between the State and ORL and Israeli Corporation. Further to the above, I call attention to Section 37(C) of the Government Work Articles providing that execution of the decision regarding which an appeal was filed – will be stayed until a hearing on the appeal is held."

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 assessment.

Note 5 - Contingent Liabilities

For details in connection with the contingent liabilities, see Note 19B of the Corporation's financial statements as at December 31, 2004.

Note 6 - Business Segment Information

	Fertilizers									Eliminations	
	Potash	Phosphate	Eliminations	Total	Industrial Products	Performance products	Shipping	Energy	Other activities	& unrelated expenses	Total consolidated
	(Unaudited)	(Unaudited)	Unaudited	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the six-month period ended June 30, 2005											
Other operating sales and revenues, net:											
Unaffiliated customers	**2,115**	**1,064**	**-**	**3,179**	**1,646**	**1,369**	**6,054**	**-**	**388**	**-**	**12,636**
Inter-segment	**283**	**168**	**(80)**	**371**	**23**	**17**	**49**	**-**	**133**	**(593)**	**-**
Total other operating sales and revenues, net	**2,398**	**1,232**	**(80)**	**3,550**	**1,669**	**1,386**	**6,103**	**-**	**521**	**(593)**	**12,636**
Operating earnings	**675**	**63**	**2**	**740**	**302**	**154**	**384**		**23**	**(6)**	**1,597**
Group's equity in the net earnings (losses) of affiliates, net	**-**	**-**	**-**	**-**	**-**	**-**	**23**	**20**	**(51)**	**-**	**(8)**

	Fertilizers									Eliminations	
	Potash	Phosphate	Eliminations	Total	Industrial Products	Performance products	Shipping	Energy	Other activities	& unrelated expenses	Total consolidated
	(Unaudited)	(Unaudited)	Unaudited	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the six-month period ended June 30, 2004											
Other operating sales and revenues, net:											
Unaffiliated customers	1,772	1,058	-	2,830	1,436	1,266	5,106	-	350	-	10,988
Inter-segment	209	146	(51)	304	16	11	46	-	115	(492)	-
Total other operating sales and revenues, net	1,981	1,204	(51)	3,134	1,452	1,277	5,152	-	465	(492)	10,988
Operating earnings (losses)	472	(2)	-	470	102	111	271	-	1	(19)	936
Group's equity in the net earnings (losses) of affiliates, net	-	-	-	-	-	-	25	51	(2)	-	74

Note 6 - Business Segment Information

	Fertilizers: Potash	Fertilizers: Phosphate	Fertilizers: Eliminations	Fertilizers: Total	Industrial Products	Performance products	Shipping	Energy	Other activities	Eliminations & unrelated expenses	Total consolidated
	(Unaudited)	(Unaudited)	Unaudited	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the three-month period ended June 30, 2005											
Other operating sales and revenues, net:											
Unaffiliated customers	**1,082**	**617**	**-**	**1,699**	**856**	**706**	**3,213**	**-**	**184**	**-**	**6,658**
Inter-segment	**148**	**83**	**(42)**	**189**	**13**	**12**	**27**	**-**	**64**	**(305)**	**-**
Total other operating sales and revenues, net	**1,230**	**700**	**(42)**	**1,888**	**869**	**718**	**3,240**	**-**	**248**	**(305)**	**6,658**
Operating earnings	**341**	**36**	**1**	**378**	**152**	**77**	**169**	**-**	**10**	**4**	**790**
Group's equity in the net earnings (losses) of affiliates, net	**-**	**-**	**-**	**-**	**-**	**-**	**14**	**14**	**(46)**	**-**	**(18)**

	Fertilizers: Potash	Fertilizers: Phosphate	Fertilizers: Eliminations	Fertilizers: Total	Industrial Products	Performance products	Shipping	Energy	Other activities	Eliminations & unrelated expenses	Total consolidated
	(Unaudited)	(Unaudited)	Unaudited	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the three-month period ended June 30, 2004											
Other operating sales and revenues, net:											
Unaffiliated customers	960	515	-	1,475	774	652	2,652	-	179	-	5,732
Inter-segment	99	84	(15)	168	11	4	27	-	69	(279)	-
Total other operating sales and revenues, net	1,059	599	(15)	1,643	785	656	2,679	-	248	(279)	5,732
Operating earnings	265	4	(3)	266	65	76	143	-	24	(32)	542
Group's equity in the net earnings of of affiliates, net	-	-	-	-	-	-	13	34	-	-	47

Note 6 - Business Segment Information (cont'd)

	Fertilizers: Potash	Fertilizers: Phosphate	Fertilizers: Eliminations	Fertilizers: Total	Industrial Products	Performance products	Shipping	Energy	Other activities	Eliminations & unrelated expenses	Total consolidated
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Year ended December 31, 2004											
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 earnings (losses)	1,035	58	(2)	1,091	282	211	759	-	(15)	(5)	2,323
Group's equity in the net earnings (losses) of affiliates, net	-	2	-	2	-	-	51	66	(88)	-	31