

**Translation from the Hebrew. The binding version is the original Hebrew version.**

**ISRAEL CHEMICALS LIMITED**

(An Israeli Corporation)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

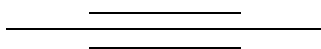
AS OF JUNE 30, 2004

(Unaudited)

**ISRAEL CHEMICALS LIMITED**  
(An Israeli Corporation)  
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
AS OF JUNE 30, 2004  
(Unaudited)

TABLE OF CONTENTS

	<b>Page</b>
<b>AUDITORS' REVIEW REPORT</b>	2
<b>CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - TRANSLATED INTO U.S. DOLLARS (note 1b):</b>	
Balance sheets	3-4
Statements of income	5
Statements of changes in shareholders' equity	6-7
Statements of cash flows	8-9
Notes to financial statements	10-13



August 15, 2004

The Board of Directors of  
Israel Chemicals Limited  
Tel-Aviv

Re: Review of unaudited condensed consolidated interim financial statements for the periods ended June 30, 2004

At your request, we have reviewed the condensed consolidated interim balance sheet of Israel Chemicals Limited (“the Company”) and its subsidiaries as of June 30, 2004 and the condensed consolidated interim statements of income, changes in shareholders’ equity and cash flows for the six and three month periods then ended. Our review was performed in accordance with the procedures prescribed by the Institute of Certified Public Accountants in Israel. Inter alia, these procedures include: reading of the aforementioned financial statements, reading of minutes of meetings of shareholders, the board of directors and its committees, and making inquiries of Company officers responsible for financial and accounting matters.

The financial statement as of December 31, 2003 and for the year then ended were audited by other auditors whose opinion thereon, which was issued on March 28, 2003, was unqualified. The financial statement as of June 30, 2003 and for the six and three month periods then ended were reviewed by other auditors whose review report thereon, which was issued on August 20, 2003, included a reference to the uncertainty regarding the contingent liabilities of the Company and certain subsidiaries.

We were furnished with the reports of other certified public accountants on their review of the condensed interim financial statements of consolidated subsidiaries, whose assets as of June 30, 2004 constitute approximately 27% of total consolidated assets included in the condensed consolidated interim balance sheet and whose sales constitute approximately 29% and 30% of the total consolidated sales included in the condensed consolidated interim statements of income for the six and three month periods ended June 30, 2004. The interim financial statements of associated companies were also reviewed by other certified public accountants.

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

During our review, including perusal of the review reports of the other certified public accountants referred to above, nothing came to our attention that indicated that significant changes should be made in the aforementioned condensed statements in order for them to be considered as drawn up in conformity with generally accepted accounting principles and the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

(---)

Kesselman & Kesselman

Certified Public Accountants (Israel)

A member of PriceWaterhouseCoopers International

**ISRAEL CHEMICALS LIMITED**

(An Israeli Corporation)

CONDENSED CONSOLIDATED BALANCE SHEETS

AS OF JUNE 30, 2004

IN U.S. DOLLARS (note 1b)

	<b>June 30</b>		<b>December 31,</b>
	<b>2004</b>	<b>2003</b>	<b>2003</b>
	<b>(Unaudited)</b>		<b>(Audited)</b>
	<b>In thousands</b>		
<b>A s s e t s</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	23,723	34,728	27,323
Short-term investments, deposits and loans	106,068	20,781	57,807
Accounts receivable:			
Trade	291,649	213,572	262,443
Other	134,505	199,851	155,432
Inventories	511,812	511,064	540,293
T o t a l current assets	<u>1,067,757</u>	<u>979,996</u>	<u>1,043,298</u>
<b>INVESTMENTS AND LONG-TERM RECEIVABLES:</b>			
Associated companies	9,925	9,900	9,906
Other companies	53,292	53,292	53,292
Long-term deposits and receivables, net of current maturities	13,645	17,089	15,772
Inventories	14,111	17,828	14,412
Minority interest in subsidiaries	23,364	*17,956	21,838
	<u>114,337</u>	<u>116,065</u>	<u>115,220</u>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>			
Cost	4,296,418	4,202,217	4,322,742
L e s s - accumulated depreciation	2,665,564	2,503,590	2,628,139
	<u>1,630,854</u>	<u>1,698,627</u>	<u>1,694,603</u>
<b>OTHER ASSETS AND DEFERRED EXPENSES,</b>			
net of accumulated amortization	132,824	142,190	138,037
	<u>2,945,772</u>	<u>2,936,878</u>	<u>2,991,158</u>

\* Reclassified.

Date of approval of the financial statements: August 15, 2004

---

**Yossi Rosen**  
**Chairman of the Board of Directors**

---

**Akiva Mozes**  
**President and Chief Executive Officer**

---

**Avi Doitchman**  
**CFO**

	<b>June 30</b>		<b>December 31,</b>
	<b>2004</b>	<b>2003</b>	<b>2003</b>
	<b>(Unaudited)</b>		<b>(Audited)</b>
<b>In thousands</b>			
<b>Liabilities and shareholders' equity</b>			
<b>CURRENT LIABILITIES:</b>			
Short-term credit from banks and other credit granting institutions	312,248	491,348	558,945
Debentures convertible into shares		76,061	
Accounts payable and accruals:			
Suppliers and contractors	242,016	224,175	244,050
Other	263,112	*235,095	*266,693
<b>T o t a l current liabilities</b>	<b>817,376</b>	<b>1,026,679</b>	<b>1,069,688</b>
<b>LONG -TERM LIABILITIES:</b>			
Bank loans and others	609,249	559,013	475,234
Reclamation and disposal of waste	24,541	*20,126	*22,635
Deferred income taxes	192,819	244,031	209,067
Employee related obligations	196,677	166,690	187,058
<b>T o t a l long-term liabilities</b>	<b>1,023,286</b>	<b>989,860</b>	<b>893,994</b>
<b>CONTINGENT LIABILITIES, see note 2</b>			
<b>T o t a l liabilities</b>	<b>1,840,662</b>	<b>2,016,539</b>	<b>1,963,682</b>
<b>MINORITY INTEREST IN SUBSIDIARIES</b>	<b>8,246</b>	<b>*6,544</b>	<b>7,708</b>
<b>DEBENTURES CONVERTIBLE INTO SHARES</b>	<b>62,803</b>		<b>71,669</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>1,034,061</b>	<b>913,795</b>	<b>948,099</b>
	<b>2,945,772</b>	<b>2,936,878</b>	<b>2,991,158</b>

\* Reclassified.

**The accompanying notes are an integral part of these condensed financial statements.**

**ISRAEL CHEMICALS LIMITED**

(An Israeli Corporation)

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

FOR THE 6 AND 3 MONTH PERIODS ENDED JUNE 30, 2004

IN U.S. DOLLARS (note 1b)

	6 months ended June 30		3 months ended June 30		Year ended December 31,
	2004	2003	2004	2003	2003
	(Unaudited)		(Unaudited)		(Audited)
	In thousands (except per share data)				
SALES	1,290,609	1,120,465	671,505	561,816	2,270,906
COST OF SALES	858,349	749,498	439,601	361,010	1,558,149
GROSS PROFIT	432,260	370,967	231,904	200,806	712,757
RESEARCH AND DEVELOPMENT EXPENSES, net	14,790	15,166	7,020	7,995	29,148
SELLING, TRANSPORTATION AND MARKETING EXPENSES	213,800	185,510	107,375	95,200	376,750
GENERAL AND ADMINISTRATIVE EXPENSES	52,309	46,060	27,179	23,951	96,171
OPERATING INCOME	151,361	124,231	90,330	73,660	210,688
FINANCING EXPENSES, net	18,573	19,156	9,971	12,632	32,314
	132,788	105,075	80,359	61,028	178,374
OTHER EXPENSES, net	(538)	9,598	(569)	3,573	51,403
INCOME BEFORE TAXES	133,326	95,477	80,928	57,455	126,971
TAXES	27,570	34,978	6,543	22,701	26,487
INCOME FROM OPERATIONS OF THE COMPANY AND ITS SUBSIDIARIES	105,756	60,499	74,385	34,754	100,484
SHARE IN PROFITS (LOSSES) OF ASSOCIATED COMPANIES, net	432	(373)	475	(250)	(555)
MINORITY INTERESTS	729	159	(239)	(313)	3,148
NET INCOME FOR THE PERIOD	106,917	60,285	74,621	34,191	103,077
NET INCOME PER NIS 1 OF PAR VALUE OF SHARES	0.084	0.052	0.058	0.028	0.084
PAR VALUE OF SHARES USED FOR THE PURPOSE OF COMPUTATION OF BASIC PER SHARE DATA - NIS in thousands	1,284,058	1,191,256	1,284,058	1,191,256	1,261,162

**The accompanying notes are an integral part of these condensed financial statements.**

## ISRAEL CHEMICALS LIMITED

(An Israeli Corporation)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE 6 AND 3 MONTH PERIODS ENDED JUNE 30, 2004  
IN U.S. DOLLARS (note 1b)

	Share capital	Additional paid-in capital	Capital surplus	Foreign currency translation adjustments	Retained earnings	Cost of Company shares held by a subsidiary	Dividend declared after the balance sheet date	Total
<b>BALANCE AS OF JANUARY 1, 2004</b> (audited)	522,773	5,854	1,110	11,059	392,760	(10,926)	25,469	948,099
<b>CHANGES DURING SIX MONTHS ENDED JUNE 30, 2004</b> (unaudited):								
Net income					106,917			106,917
Dividend*					374		(25,469)	(25,095)
Dividend declared after the balance sheet date					(63,866)		63,866	-
Conversion of debentures into shares	1,787	8,032			(5,456)	5,012		9,819
Exercise of options granted to employees				(5,235)				(444)
Other								(5,235)
<b>BALANCE AS OF JUNE 30, 2004</b> (unaudited)	524,560	13,886	1,110	5,824	430,729	(5,914)	63,866	1,034,061
<b>BALANCE AS OF JANUARY 1, 2003</b> (audited)	521,402		1,110	(15,674)	352,218	(10,575)	26,100	874,581
<b>CHANGES DURING SIX MONTHS ENDED JUNE 30, 2003</b> (unaudited):								
Net income					60,285			60,285
Dividend*					(379)		(26,100)	(26,479)
Dividend declared after the balance sheet date					(35,865)		35,865	
Acquisition of Company shares by a subsidiary						(2,164)		(2,164)
Exercise of options granted to employees	363	1,571			(541)	1,265		724
Conversion of debentures into share capital								1,934
Other				4,914				4,914
<b>BALANCE AS OF JUNE 30, 2003</b> (unaudited)	521,765	1,571	1,110	(10,760)	375,718	(11,474)	35,865	913,795
<b>BALANCE AS OF MARCH 31, 2004</b> (unaudited)	523,821	10,475	1,110	9,632	424,965	(10,835)		959,168
<b>CHANGES DURING THREE MONTHS ENDED JUNE 30, 2004</b> (unaudited):								
Net income					74,621			74,621
Erosion of dividend					374			374
Dividend declared after the balance sheet date					(63,866)		63,866	-
Conversion of debentures into shares	739	3,411						4,150
Exercise of options granted to employees					(5,365)	4,921		(444)
Other				(3,808)				(3,808)
<b>BALANCE AS OF JUNE 30, 2004</b> (unaudited)	524,560	13,886	1,110	5,824	430,729	(5,914)	63,866	1,034,061

**ISRAEL CHEMICALS LIMITED**

(An Israeli Corporation)

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

**FOR THE 6 AND 3 MONTH PERIODS ENDED JUNE 30, 2004**

IN U.S. DOLLARS (note 1b)

	Share capital	Additional paid-in capital	Capital surplus	Foreign currency translation adjustments	Retained earnings	Cost of Company shares held by a subsidiary	Dividend declared after the balance sheet date	Total
	I n t h o u s a n d s							
<b>BALANCE AS OF MARCH 31, 2003</b> (unaudited)	521,402		1,110	(13,439)	378,312	(12,739)		874,646
<b>CHANGES DURING THREE MONTHS ENDED JUNE 30, 2003</b> (unaudited):								
Net income					34,191			34,191
Erosion of dividend					(379)			(379)
Dividend declared after the balance sheet date					(35,865)		35,865	
Exercise of option granted to employees					(541)	1,265		724
Conversion of debentures into share capital	363	1,571						1,934
Other				2,679				2,679
<b>BALANCE AS OF JUNE 30, 2003</b> (unaudited)	<u>521,765</u>	<u>1,571</u>	<u>1,110</u>	<u>(10,760)</u>	<u>375,718</u>	<u>(11,474)</u>	<u>35,865</u>	<u>913,795</u>
<b>BALANCE AS OF JANUARY 1, 2003</b> (audited)	521,402		1,110	(15,674)	352,218	(10,575)	26,100	874,581
<b>CHANGES DURING THE YEAR 2003</b> (audited):								
Net income					103,077			103,077
Dividend*					(36,173)		(26,100)	(62,273)
Dividend declared after balance sheet date					(25,469)		25,469	
Acquisition of Company shares by a subsidiary						(2,164)		(2,164)
Exercise of options granted to employees					(893)	1,813		920
Conversion of debentures into shares	1,371	5,854		26,733				7,225
Other								26,733
<b>BALANCE AS OF DECEMBER 31, 2003</b> (audited)	<u>522,773</u>	<u>5,854</u>	<u>1,110</u>	<u>11,059</u>	<u>392,760</u>	<u>(10,926)</u>	<u>25,469</u>	<u>948,099</u>

\* After deduction of dividends to a subsidiary in the amount of U.S.\$ 250,000, U.S.\$ 203,000 and U.S. \$ 556,000 in the periods ended June 30, 2003, 2004 and for the year ended December 31, 2003, respectively.

**The accompanying notes are an integral part of these condensed financial statements.**



**ISRAEL CHEMICALS LIMITED**

(An Israeli Corporation)

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE 6 AND 3 MONTH PERIODS ENDED JUNE 30, 2004**  
**IN U.S. DOLLARS (note 1b)**

	<u>6 months ended</u> <u>June 30</u>		<u>3 months ended</u> <u>June 30</u>		<u>Year ended</u> <u>December 31,</u>
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	<u>(Unaudited)</u>		<u>(Unaudited)</u>		<u>(Audited)</u>
	<u>In thousands</u>				
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Net income for the period	106,917	60,285	74,621	34,191	103,077
Adjustments to reconcile net income to net cash flows from operating activities (a)	<u>99,965</u>	<u>229,319</u>	<u>40,328</u>	<u>58,946</u>	<u>350,164</u>
Net cash provided by operating activities	<u>206,882</u>	<u>289,604</u>	<u>114,949</u>	<u>93,137</u>	<u>453,241</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Purchase of property, plant and equipment	(50,633)	(71,029)	(21,205)	(32,404)	(135,488)
Investment grants received	2,538	3,034	1,206	1,173	10,074
Acquisition of newly consolidated subsidiary					(1,632)
Sale of investment in formerly consolidated Subsidiaries (b)	19,624		19,624		
Investments in shares of associated companies and loans thereto - net	(442)	(183)		(79)	(328)
Investments of marketable securities and long-term deposits	(1,215)	(399)	(1,215)	(143)	(6,199)
Increase in short-term deposits and loans - net	(54,779)	(3,767)	(43,107)	(569)	(43,572)
Amounts carried to other assets and deferred charges	(2,773)	(1,319)		(586)	(2,413)
Proceeds from sale of property, plant and equipment	1,532	802	190	163	3,326
Proceeds from disposal of marketable securities, investments and long-term deposits	<u>3,112</u>	<u>1,965</u>	<u>409</u>	<u>252</u>	<u>6,829</u>
Net cash used in investing activities	<u>(83,036)</u>	<u>(70,896)</u>	<u>(44,098)</u>	<u>(32,193)</u>	<u>(169,403)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Proceeds from exercise of options granted to employees	501	724	501	724	724
Issuance of share capital to minority shareholders in a subsidiary					225
Long-term loans received and other long-term liabilities undertaken	221,596	44,866	30,061	29,831	105,907
Repayment of long-term loans and discharge of other long-term liabilities	(133,183)	(217,478)	(61,509)	(78,171)	(377,805)
Dividend paid:					
To shareholders of the Company	(25,095)	(26,479)	(25,095)	(26,479)	(62,273)
To minority shareholders in subsidiaries		(150)		(150)	(646)
Short-term credit from banks and others - net	(191,123)	1,618	(19,180)	9,632	63,887
Acquisition of company shares by a subsidiary		(2,164)			(2,164)
Net cash used in financing activities	<u>(127,304)</u>	<u>(199,063)</u>	<u>(75,222)</u>	<u>(64,613)</u>	<u>(272,145)</u>
<b>ADJUSTMENTS FROM TRANSLATION OF BALANCES OF CASH AND CASH EQUIVALENTS OF CERTAIN NON-ISRAELI SUBSIDIARIES</b>					
	<u>(142)</u>	<u>269</u>	<u>715</u>	<u>174</u>	<u>816</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(3,600)</u>	<u>19,914</u>	<u>(3,656)</u>	<u>(3,495)</u>	<u>12,509</u>
<b>BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<u>27,323</u>	<u>14,814</u>	<u>27,379</u>	<u>38,223</u>	<u>14,814</u>
<b>BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u>23,723</u>	<u>34,728</u>	<u>23,723</u>	<u>34,728</u>	<u>27,323</u>

**ISRAEL CHEMICALS LIMITED**  
(An Israeli Corporation)  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
FOR THE 6 AND 3 MONTH PERIODS ENDED JUNE 30, 2004  
IN U.S. DOLLARS (note 1b)

	6 months ended June 30		3 months ended June 30		Year ended December 31,
	2004	2003	2004	2003	2003
	(Unaudited)		(Unaudited)		(Audited)
	In thousands				
<b>(a) Adjustments to reconcile net income to net cash flows from operating activities:</b>					
Income and expenses not involving cash flows:					
Minority share in subsidiaries - net	(729)	(159)	239	313	(3,148)
Associated companies - Share in losses (profits) - net	(432)	373	(475)	250	555
Depreciation and amortization	81,611	83,310	40,347	42,820	169,368
Deferred income taxes - net	(11,803)	19,332	(22,870)	11,615	(14,793)
Liability for employee rights upon retirement - net	12,884	10,985	5,614	(3,898)	23,874
Capital losses (gains) on:					
Sale of property, plant and equipment	(554)	294	(383)	(147)	1,749
Sale of share in consolidated company	(4,569)		(4,569)		
Sale of share in associated company					466
Write down of production facilities	5,439	3,843	5,439	443	21,540
Erosion of principal of long-term loans and other long-term liabilities - net	(575)	(816)	576	4,219	(591)
Erosion of principal (interest and linkage differences) of long-term deposits and receivables - net	310	(1,583)	(320)	(915)	3,234
Gain from marketable securities	(39)	(553)	(43)	(429)	(465)
	<u>81,543</u>	<u>115,026</u>	<u>23,555</u>	<u>54,271</u>	<u>201,789</u>
Changes in operating asset and liability items:					
Decrease (increase) in trade receivable	(38,987)	136,304	(27,157)	37,682	100,577
Decrease (increase) in other receivables	12,395	(13,639)	8,395	(10,197)	31,309
Increase (decrease) in suppliers and contractors	12,450	508	17,353	(14,552)	13,497
Increase (decrease) in other payables	772	4,870	9,045	3,621	28,053
Decrease (increase) in inventories	29,744	(16,053)	8,833	(11,213)	(28,837)
Increase (decrease) in reclamation and disposal of waste	2,048	2,303	304	(666)	3,776
	<u>18,422</u>	<u>114,293</u>	<u>16,773</u>	<u>4,675</u>	<u>148,375</u>
	<u>99,965</u>	<u>229,319</u>	<u>40,328</u>	<u>58,946</u>	<u>350,164</u>
<b>(b) Sale of investments in formerly consolidated Subsidiary:</b>					
Assets and liabilities of the subsidiary consolidated to date of disposal:					
Working capital (excluding cash and cash equivalents)	2,264		2,264		
Property plant and equipment, net	11,947		11,947		
Deferred income taxes	1,899		1,899		
Deferred charges	125		125		
Long-term liabilities	(1,180)		(1,180)		
Capital gain from sale of investment	4,569		4,569		
	<u>19,624</u>		<u>19,624</u>		

**The accompanying notes are an integral part of these condensed financial statements.**

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1 - GENERAL:

- a. The condensed consolidated interim financial statements of Israel Chemicals Limited (hereafter - the Company) and its subsidiaries (together - the Group) as of June 30, 2004 and for the six month and three month periods then ended ("the interim statements") have been prepared in a condensed form, in accordance with accounting principles generally accepted for interim financial statements and with the Israeli Securities Regulations (Periodic and Immediate Reports), 1970. The generally accepted accounting principles applied in preparation of the interim statements are consistent with those applied in preparation of the annual consolidated financial statements; nevertheless, the interim statements do not include all the information and notes which are required for the annual consolidated financial statements.

**b. First-time presentation of financial statements in dollars:**

Through December 31, 2003, the Company prepared its financial statements on the basis of historical cost adjusted for the changes in the general purchasing power of Israeli currency (hereafter - "NIS"), based upon changes in the exchange rate of the US dollar (hereafter - "the dollar"), as permitted under section 29a of Opinion 36 of the Institute of Certified Public Accountants in Israel.

Taking into account the provisions of section 4 of Accounting Standard No. 13 - "Effect of Changes in Foreign Currency Exchange Rates" - issued by the Israel Accounting Standards Board (hereafter - "the IASB"), and since the dollar is the principal currency used in the Company's operations, the Company draws up and presents, commencing January 1, 2004, its financial statements in dollars. This presentation maintains continuity of the measurement basis, as formerly applied in the Company's financial statements.

The comparative figures in dollars included in these financial statements are based on the adjusted financial statements for the prior reporting periods, as previously presented, after being divided by the exchange rate of the dollar at the end of each of those prior reporting periods.

- c. The changes in the exchange rate of the dollar and in the Israeli consumer price index in the reported periods were as follows:

	<b>Exchange rate of the U.S. dollar</b>	<b>Israeli consumer price index</b>
	<u>%</u>	<u>%</u>
6 months ended June 30:		
2004	2.7	1.4
2003	(9.0)	(0.5)
3 months ended June 30:		
2004	(0.7)	1.5
2003	(8.0)	(1.3)
Year ended December 31, 2003	(7.6)	(1.9)

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 2 - CONTINGENT LIABILITIES:

**a.** Kishon River

One of ICL's subsidiaries is situated near Haifa Bay, Israel. For many years, wastewater from its plant and from municipalities and other plants has been diverted to the Kishon River near Haifa. Since the 1980's, a treatment facility has been in operation that reduces the concentration of certain polluting materials from wastewater discharges by these plants. In 2001, a class action was filed against the subsidiary and three other third-party entities alleging that the defendants polluted the Kishon River. The plaintiffs requested the court to order the defendants to cease the pollution of the Kishon River and to restore the Kishon River to the state it was in prior to the discharge of the waste. The State of Israel and other third-party defendants were joined in this claim.

In 2000, following reports that members of the Israeli military who trained in the Kishon River had developed cancer, a committee was appointed by the Israeli Chief of Staff to examine whether any materials in the area of the Kishon River may be a health risk and whether these materials may have caused cancer to personnel who trained in the river. The committee concluded that there was no scientific proof of a causal connection between the pollution of the river and the cancer of most of the personnel. A minority opinion concluded that there was a causal connection. This report, which was issued in 2003, is not admissible as evidence in an Israeli court.

In addition, a number of lawsuits have been filed against a variety of defendants, including the State of Israel, municipalities and governmental bodies, as well as one of ICL's subsidiaries. These lawsuits seek aggregate personal injury and property damages of approximately \$ 110 million, in addition to other non-quantifiable damages, including as loss of future earnings and medical expenses, arising from alleged pollution of the Kishon River.

The Company does not believe that the amount of its financial exposure relating to the Kishon River circumstances described above can be estimated at this time, since the pending claims are still in a preliminary stage and the Company may be subject to additional claims. Therefore, no provision has been included in the consolidated financial statements in respect of these claims. However, the cost of restoring the Kishon River, and liabilities for personal injuries and property damages, could be very substantial. Should the Company be required to participate in any of these remediation or damage costs, its results of operations could be materially adversely impacted.

- b.** For additional details in connection with the contingent liabilities, see note 19c of the Company's financial statements as of December 31, 2003.

#### NOTE 3 - SALE OF CONSOLIDATED SUBSIDIARY

In February 2004, the Company entered into an agreement to sell shares of the subsidiary, Negev Industrial Minerals Ltd. (as well as a sister company related thereto) in exchange for cash and the payment of liabilities, in the total amount of \$ 19.6 million. The transaction was completed during the second quarter. The Company included a capital gain of \$ 4.6 million from the sale.

**ISRAEL CHEMICALS LIMITED**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 4 - BUSINESS SEGMENTS**

	Fertilizers		Industrial products	Agricultural products	Performance products	Metallurgy	Other operations	Eliminations and unallocated expenses	Consolidated
	Potash	Phosphate							
<b>Six months ended June 30, 2004</b> (unaudited):									
Total revenue	440,528	267,749	284,224	38,527	283,822	43,603	40,480	(97,011)	1,290,609
Operating income (loss)	104,863	(633)	11,429	11,181	24,755	(3,211)	2,170	596	150,361
<b>Six months ended June 30, 2003</b> (unaudited):									
Total revenue	384,670	232,785	248,004	28,992	251,300	39,546	32,342	(86,170)	1,120,465
Operating income (loss)	87,985	6,786	6,248	6,575	19,198	(6,428)	2,482	917	124,231
<b>Three months ended June 30, 2004</b> (unaudited):									
Total revenue	233,883	132,209	150,897	22,347	144,668	22,386	21,808	(53,557)	671,505
Operating income (loss)	58,478	867	6,754	7,667	16,932	(1,456)	1,255	429	90,330
<b>Three months ended June 30, 2003</b> (unaudited):									
Total revenue	191,750	111,093	121,003	17,736	134,288	19,829	18,804	(47,269)	561,816
Operating income (loss)	51,862	5,674	2,521	4,512	9,621	(2,618)	2,153	621	73,660
<b>Year ended December 31, 2003</b> (audited):									
Total revenue	765,427	497,038	477,856	82,987	516,609	73,809	67,573	(182,081)	2,270,906
Operating income (loss)	151,348	3,080	3,264	21,039	35,622	(11,873)	4,655	2,488	210,688

## ISRAEL CHEMICALS LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 5 - TAXES

On June 29, 2004, the Israeli Parliament passed the Income Tax Ordinance Amendment (No. 140 and Ad Hoc Provision) Law, 2004 (hereafter - the Amendment), which provides for the gradual reduction - commencing from January 1, 2004 - in the rate of corporate tax from 36% to 30%, in the following manner: the rate for 2004 will be 35%, in 2005 - 34%, in 2006 - 32%, and in 2007 and thereafter - 30%. The Amendment was signed at the beginning of July 2004 by the officials authorized by the State of Israel to approve it, and was published in the Official Gazette of the Government of Israel on July 11, 2004.

Following the amendment in the tax rates as prescribed by the law and additional adjustments in the tax rates according to which the deferred taxes are computed, based on the tax rates expected to be applicable when the reserve is utilized, a decrease of \$ 18 million in the Company's income tax expenses (current and deferred), for the six months period ended June 30, 2004, was recorded.

#### NOTE 6 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENT

In July 2004, the Israel Accounting Standards Board issued Israel Accounting Standard No. 19 - "Taxes on Income", which is based on International Accounting Standard No. 12, that prescribes the accounting treatment (recognition criteria, measurement, presentation and disclosure) required for taxes on income.

This accounting standard is to be applied to financial statements covering periods commencing on, or after, January 1, 2005; earlier adoption is encouraged.

The company is currently evaluating the effect on its financial statements of applying the provisions of this standard.

---

---