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

ISRAEL CHEMICALS LIMITED

(An Israeli Corporation)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2005

(Unaudited)

ISRAEL CHEMICALS LIMITED

(An Israeli Corporation)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2005

(Unaudited)

TABLE OF CONTENTS

	Page
AUDITORS' REVIEW REPORT	2
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS - IN U.S. DOLLARS (note 1b):	
Balance sheets	3-4
Statements of income	5
Statements of changes in shareholders' equity	6-7
Statements of cash flows	8-10
Notes to the financial statements	11-15

PRICEWATERHOUSECOOPERS

Kesselman & Kesselman
Certified Public Accountants (Isr.)
Trade Tower, 25 Hamered Street
Tel Aviv 68125 Israel
P.O Box 452 Tel Aviv 61003
Telephone +972-3-7954555
Facsimile +972-3-7954556

August 22, 2005

The Board of Directors of
Israel Chemicals Limited
Tel-Aviv

Re: Review of condensed consolidated unaudited interim financial statements for the six and three month periods ended June 30, 2005

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, 2005 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.

We have been furnished with the reports of other auditors who reviewed the condensed interim statements of consolidated subsidiaries, whose assets as of June 30, 2005 constitute approximately 29% of total consolidated assets included in the condensed consolidated interim balance sheet and whose sales constitute approximately 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, 2005. 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.

In performing our review, including the perusal of the reports of the other auditors referred to above, nothing came to our attention that indicates that material adjustments need to be made to the interim condensed consolidated financial statements referred to above, in order for them to be considered as having been prepared in accordance with accounting principles generally accepted in Israel and with the Securities (Periodic and Immediate Reports) Regulations, 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, 2005

IN U.S. DOLLARS (note 1b)

	June 30		December 31,
	2005	2004	2004
	(Unaudited)		(Audited)
	In thousands		
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	46,704	23,723	37,202
Short-term investments, deposits and loans	92,313	*108,238	150,327
Accounts receivable:			
Trade	396,356	291,649	397,200
Other	114,729	*134,770	107,859
Inventories	532,367	*494,341	509,811
T o t a l current assets	1,182,469	1,052,721	1,202,399
INVESTMENTS AND LONG-TERM RECEIVABLES:			
Associated companies	17,617	9,925	14,150
Other companies		53,292	
Long-term deposits and receivables, net of current maturities	29,856	*30,846	33,707
Inventories - non current	32,860	*31,582	31,415
Deferred income taxes	16,127	*30,123	29,773
Minority interests	3,640	*2,291	1,541
	100,100	158,059	110,586
PROPERTY, PLANT AND EQUIPMENT:			
Cost	4,343,695	4,277,047	4,398,396
L e s s - accumulated depreciation	2,776,158	2,665,564	2,778,156
	1,567,537	*1,611,483	1,620,240
OTHER ASSETS AND DEFERRED CHARGES, net of accumulated amortization	126,085	132,824	129,047
	2,976,191	2,955,087	3,062,272

* Reclassified.

(---)

Yossi Rosen
Chairman of the Board of Directors

(---)

Akiva Mozes
President and Chief Executive Officer

(---)

Avi Doitchman
CFO

Approval date of the financial statements: August 22, 2005

	June 30		December 31,
	2005	2004	2004
	(Unaudited)		(Audited)
	In thousands		
Liabilities and shareholders' equity			
CURRENT LIABILITIES:			
Short-term credit from banks and other credit granting institutions	199,819	312,248	340,485
Accounts payable and accruals:			
Suppliers and contractors	255,769	242,016	267,492
Other	309,048	*263,377	319,311
Total current liabilities	764,636	817,641	927,288
LONG -TERM LIABILITIES:			
Bank loans and other liabilities, net of current maturities	419,854	*588,176	449,595
Reclamation and disposal of waste	27,695	24,541	28,380
Deferred income taxes	195,386	*222,942	192,380
Employees related obligations	229,520	196,677	240,221
Total long-term liabilities	872,455	1,032,336	910,576
CONTINGENT LIABILITIES, see note 2			
Total liabilities	1,637,091	1,849,977	1,837,864
MINORITY INTERESTS	8,720	8,246	9,051
DEBENTURES CONVERTIBLE INTO SHARES	327	62,803	38,335
SHAREHOLDERS' EQUITY	1,330,053	1,034,061	1,177,022
	2,976,191	2,955,087	3,062,272

* 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, 2005

IN U.S. DOLLARS (note 1b)

	6 months ended June 30		3 months ended June 30		Year ended December 31,
	2005	2004	2005	2004	2004
	(Unaudited)		(Unaudited)		(Audited)
	In thousands (except per share data)				
SALES	1,483,967	1,290,609	773,926	671,505	2,714,955
COST OF SALES	908,806	858,349	477,783	439,601	1,777,905
GROSS PROFIT	575,161	432,260	296,143	231,904	937,050
RESEARCH AND DEVELOPMENT EXPENSES, net	15,505	14,790	7,498	7,020	32,115
SELLING, TRANSPORTATION AND MARKETING EXPENSES	225,861	213,800	120,006	107,375	444,911
GENERAL AND ADMINISTRATIVE EXPENSES	52,111	52,309	26,390	27,179	105,656
OPERATING INCOME	281,684	151,361	142,249	90,330	354,368
FINANCING EXPENSES (INCOME), net	(1,183)	18,573	(3,518)	9,971	38,215
	282,867	132,788	145,767	80,359	316,153
OTHER EXPENSES (INCOME), net	168	(538)	209	(569)	6,698
INCOME BEFORE TAXES ON INCOME	282,699	133,326	145,558	80,928	309,455
TAXES ON INCOME	86,805	27,570	44,230	6,543	59,216
INCOME FROM OPERATIONS OF THE COMPANY AND ITS SUBSIDIARIES	195,894	105,756	101,328	74,385	250,239
SHARE IN PROFITS OF ASSOCIATED COMPANIES, net	297	432	113	475	338
MINORITY INTERESTS	325	729	(266)	(239)	(74)
NET INCOME FOR THE PERIOD	196,516	106,917	101,175	74,621	250,503
NET INCOME PER NIS 1 OF PAR VALUE OF SHARES	0.153	0.084	0.078	0.058	0.197
PAR VALUE OF SHARES USED IN THE COMPUTATION OF BASIC PER SHARE DATA - NIS in thousands	1,284,306	1,284,058	1,284,544	1,284,058	1,284,465

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, 2005
IN U.S. DOLLARS (note 1b)

	Share capital	Additional paid-in capital	Capital reserve	Differences from translation of foreign currency financial statements of investees	Retained earnings	Cost of Company shares held by a subsidiary	Dividend declared after the balance sheet date	Total
	In thousands							
BALANCE AS OF JANUARY 1, 2005 (audited)	529,031	34,719	1,110	43,670	538,330	(5,550)	35,712	1,177,022
CHANGES DURING THE SIX MONTH PERIOD ENDED JUNE 30, 2005 (unaudited):								
Net income					196,516			196,516
Dividend*					22		(35,712)	(35,690)
Dividend declared after balance sheet date					(59,769)		59,769	
Exercise of options granted to employees					(49)	307		258
Conversion of debentures into shares	6,994	31,333						38,327
Differences from translation of foreign currency financial statements of investees				(46,380)				(46,380)
BALANCE AS OF JUNE 30, 2005 (unaudited)	536,025	66,052	1,110	(2,710)	675,050	(5,243)	59,769	1,330,053
BALANCE AS OF JANUARY 1, 2004 (audited)	522,773	5,854	1,110	11,059	392,760	(10,926)	25,469	948,099
CHANGES DURING THE SIX MONTH PERIOD ENDED JUNE 30, 2004 (unaudited):								
Net income					106,917			106,917
Dividend*					374		(25,469)	(25,095)
Dividend declared after balance sheet date					(63,866)		63,866	
Exercise of options granted to employees					(5,456)	5,012		(444)
Conversion of debentures into shares	1,787	8,032						9,819
Differences from translation of foreign currency financial statements of investees				(5,235)				(5,235)
BALANCE AS OF JUNE 30, 2004 (unaudited)	524,560	13,886	1,110	5,824	430,729	(5,914)	63,866	1,034,061
BALANCE AS OF MARCH 31, 2005 (unaudited)	536,025	66,052	1,110	24,799	633,622	(5,243)		1,256,365
CHANGES DURING THE THREE MONTH PERIOD ENDED JUNE 30, 2005 (unaudited):								
Net income					101,175			101,175
Erosion of dividend					22			22
Dividend declared after balance sheet date					(59,769)		59,769	
Differences from translation of foreign currency financial statements of investees				(27,509)				(27,509)
BALANCE AS OF JUNE 30, 2005 (unaudited)	536,025	66,052	1,110	(2,710)	675,050	(5,243)	59,769	1,330,053

ISRAEL CHEMICALS LIMITED

(An Israeli Corporation)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE 6 AND 3 MONTH PERIODS ENDED JUNE 30, 2005

IN U.S. DOLLARS (note 1b)

	Share capital	Additional paid-in capital	Capital reserve	Differences from translation of foreign currency financial statements of investees	Retained earnings	Cost of Company shares held by a subsidiary	Dividend declared after the balance sheet date	Total
	In thousands							
BALANCE AS OF MARCH 31, 2004 (unaudited)	523,821	10,475	1,110	9,632	424,965	(10,835)		959,168
CHANGES DURING THE THREE MONTH PERIOD ENDED JUNE 30, 2004 (unaudited):								
Net income					74,621			74,621
Erosion of dividend					374			374
Dividend declared after balance sheet date					(63,866)		63,866	
Exercise of option granted to employees					(5,365)	4,921		(444)
Conversion of debentures into shares	739	3,411						4,150
Differences from translation of foreign currency financial statements of investees				(3,808)				(3,808)
BALANCE AS OF JUNE 30, 2004 (unaudited)	524,560	13,886	1,110	5,824	430,729	(5,914)	63,866	1,034,061
BALANCE AS OF JANUARY 1, 2004 (audited)	522,773	5,854	1,110	11,059	392,760	(10,926)	25,469	948,099
CHANGES DURING THE YEAR 2004 (audited):								
Net income					250,503			250,503
Dividend*					(63,471)		(25,469)	(88,940)
Dividend declared after balance sheet date					(35,712)		35,712	
Conversion of debentures into shares	6,258	28,865						35,123
Exercise of options granted to employees					(5,750)	5,376		(374)
Differences from translation of foreign currency financial statements of investees				32,611				32,611
BALANCE AS OF DECEMBER 31, 2004 (audited)	529,031	34,719	1,110	43,670	538,330	(5,550)	35,712	1,177,022

* Net of dividend in the amounts of U.S.$ 203 thousand, U.S.$ 138 thousand and U.S.$ 488 thousand to a subsidiary in the periods ended June 30, 2004, 2005 and for the year ended December 31, 2004, 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, 2005
IN U.S. DOLLARS (note 1b)

	6 months ended June 30		3 months ended June 30		Year ended December 31,
	2005	2004	2005	2004	2004
	(Unaudited)		(Unaudited)		(Audited)
	In thousands				
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income for the period	196,516	106,917	101,175	74,621	250,503
Adjustments to reconcile net income to net cash flows from operating activities (a)	46,545	98,577	17,778	39,645	179,416
Net cash provided by operating activities	243,061	205,494	118,953	114,266	429,919
CASH FLOWS FROM INVESTING ACTIVITIES:					
Acquisition of property, plant and equipment	(77,882)	(50,633)	(35,357)	(21,205)	(124,551)
Investment grants received	2,884	2,538	823	1,206	3,711
Proceeds from disposal of investments in subsidiaries consolidated in previous years (b)		19,624		19,624	19,370
Proceeds from disposal of investments in another company (SQM)					100,369
Associated companies and another company-acquisition of shares and changes in loans, net	(3,843)	(442)	(1,893)		(4,428)
Proceeds from sale of an associated company					447
Acquisition of marketable securities and long-term deposits	(2,251)	(1,215)	(897)	(1,215)	(5,099)
Short-term deposits and loans, net	40,344	(54,779)	38,433	(43,107)	(87,027)
Amounts charged to other assets and deferred charges	(2,633)	(2,773)	(2,330)		(3,268)
Proceeds from sale of property, plant and equipment	2,737	1,532	1,790	190	7,806
Proceeds from realization of marketable securities and long-term deposits	2,991	*4,500	1,312	*1,092	6,240
Net cash provided by (used in) investing activities	(37,653)	(81,648)	1,881	(43,415)	(86,430)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from exercise of options granted to employees	258	501		501	817
Receipt of long-term loans and other long-term liabilities	235,010	221,596	17,088	30,061	252,220
Repayment of long-term loans and other long-term liabilities	(355,259)	(133,183)	(197,574)	(61,509)	(216,891)
Dividend paid	(35,690)	(25,095)	(35,690)	(25,095)	(88,940)
Short-term credit from banks and others, net	(39,579)	(191,123)	(52,145)	(19,180)	(281,062)
Net cash used in financing activities	(195,260)	(127,304)	(268,321)	(75,222)	(333,856)
TRANSLATION DIFFERENCES ON CASH BALANCES OF SUBSIDIARIES OPERATING INDEPENDENTLY	(646)	(142)	(366)	715	246
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,502	(3,600)	(147,853)	(3,656)	9,879
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	37,202	27,323	194,557	27,379	27,323
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD	46,704	23,723	46,704	23,723	37,202

* Reclassified.

ISRAEL CHEMICALS LIMITED
(An Israeli Corporation)
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE 6 AND 3 MONTH PERIODS ENDED JUNE 30, 2005
IN U.S. DOLLARS (note 1b)

	6 months ended June 30		3 months ended June 30		Year ended December 31,
	2005	2004	2005	2004	2004
	(Unaudited)		(Unaudited)		(Audited)
	In thousands				
(a) Adjustments to reconcile net income to net cash flows from operating activities:					
Income and expenses not involving cash flows:					
Minority interest profits (losses) of subsidiaries, net	(325)	(729)	266	239	74
Share in profits of associated companies, net	(297)	(432)	(113)	(475)	(338)
Dividend of associated companies	20				
Depreciation and amortization	82,777	*80,223	41,907	*39,664	166,261
Deferred income taxes, net	21,002	(11,803)	15,967	(22,870)	(49,328)
Liability for employee severance pay, net	497	12,884	(3,382)	5,614	59,955
Capital gains on sale of:					
Property, plant and equipment	(667)	(554)	(390)	(383)	(4,430)
Shares in companies consolidated in previous years (b)		(4,569)		(4,569)	(4,347)
Investments in another company (SQM)					(43,623)
Shares in associated company					(309)
Write-down of production facilities		5,439		5,439	22,316
Exchange and linkage differences on (erosion of) principal of long-term loans and other liabilities, net	(3,538)	(575)	(2,575)	576	13,986
Erosion of principal (interest, exchange and linkage differences) of long-term deposits and receivables, net	1,257	310	1,020	(320)	(265)
Loss (gain) from marketable securities, net	42	(39)	56	(43)	(162)
	100,768	80,155	52,756	22,872	159,790
Changes in operating asset and liability items:					
Increase in trade receivables	(14,459)	(38,987)	(14,957)	(27,157)	(133,329)
Decrease (increase) in other receivables	(15,506)	12,395	(5,298)	8,395	47,903
Decrease (increase) in inventories	(32,439)	29,744	2,235	8,833	28,464
Increase in payables and contractors	7,770	12,450	5,216	17,353	24,125
Increase (decrease) in other payables	(287)	772	(22,585)	*7,643	47,684
Increase in provision for reclamation of mines and disposal of waste	698	2,048	411	*1,706	4,779
	(54,223)	18,422	(34,978)	16,773	19,626
	46,545	98,577	17,778	39,645	179,416

* Reclassified.

ISRAEL CHEMICALS LIMITED
(An Israeli Corporation)
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE 6 AND 3 MONTH PERIODS ENDED JUNE 30, 2005
IN U.S. DOLLARS (note 1b)

	6 months ended June 30		3 months ended June 30		Year ended December 31,
	2005	2004	2005	2004	2004
	(Unaudited)		(Unaudited)		(Audited)
	In thousands				
(b) Sale of investments in subsidiaries consolidated in previous periods:					
Assets and liabilities of the subsidiaries at date of acquisition:					
Working capital (excluding cash and cash equivalents)		2,264		2,264	2,202
Property, plant and equipment, net		11,947		11,947	11,947
Deferred income taxes		1,899		1,899	1,927
Deferred charges		125		125	125
Long-term liabilities		(1,180)		(1,180)	(1,178)
Capital gain from sale of investment		4,569		4,569	4,347
		19,624		19,624	19,370
(c) Non cash activity – conversion of debentures into shares	38,327	9,819	-;-	4,150	35,123

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, 2005 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 Standard No. 14 of the Israel Accounting Standards Board (hereafter - the IASB) and in accordance with the chapter D of the Securities (Periodic and Immediate Reports) Regulations, 1970.

The accounting principles applied in the preparation of the interim statements are consistent with those applied in the preparation of the annual financial statements, except for the change in the accounting treatment applied to taxes on income, relating to the implementation of Israel Accounting Standard No. 19 – "Taxes on Income" of the IASB, as detailed in note 5. However, the interim statements do not include all the information and explanations required for the annual financial statements.

b. Presentation of financial statements in dollars:

The Company prepares and presents its financial statements in U.S. dollars (hereafter - "dollars"; "$"), the currency in which most of the Company's sales are conducted and most of the Company's asset acquisitions are performed, taking into account the provisions of section 4 of Accounting Standard No. 13 - "Effect of Changes in Foreign Currency Exchange Rates" - issued by the IASB.

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

	Exchange rate of the U.S. dollar	**Israeli consumer price index**
	%	**%**
6 months ended June 30:		
2005	6.2	0.5
2004	2.7	1.4
3 months ended June 30:		
2005	4.9	1.1
2004	(0.7)	1.5
Year ended December 31, 2004	(1.6)	1.2

NOTE 2 - CONTINGENT LIABILITIES:

For additional details in connection with the contingent liabilities, see note 19c of the Company's financial statements as of December 31, 2004.

NOTE 3 - BUSINESS SEGMENTS (continued):

	Fertilizers				Industrial products	Performance products	Metallurgy	Other operations	Eliminations and unallocated expenses	Consolidated
	Potash	Phosphate	Eliminations	Total						
	In thousands									
Six months ended June 30, 2005 (unaudited):										
Sales and other operating revenues-net:										
Unaffiliated customers	482,436	242,480		724,916	375,598	312,315	46,722	24,416		1,483,967
Inter-segment	64,637	38,242	(18,298)	84,581	5,296	3,957	11,174	17,701	(122,709)	
Total revenue	547,073	280,722	(18,298)	809,497	380,894	316,272	57,896	42,117	(122,709)	1,483,967
Operating income	154,094	14,389	380	168,863	68,874	36,054	1,424	3,539	2,930	281,684
Six months ended June 30, 2004 (unaudited):										
Sales and other operating revenues-net:										
Unaffiliated customers	393,943	235,290		629,233	319,245	281,451	35,708	24,972		1,290,609
Inter-segment	46,585	32,459	(11,313)	67,731	3,506	2,371	7,895	15,508	(97,011)	
Total revenue	440,528	267,749	(11,313)	696,964	*322,751	283,822	43,603	40,480	(97,011)	1,290,609
Operating income (loss)	104,863	(633)	211	104,441	*22,610	24,755	(3,211)	2,170	596	151,361
Three months ended June 30, 2005 (unaudited):										
Sales and other operating revenues-net:										
Unaffiliated customers	245,445	139,922		385,367	194,175	160,172	21,778	12,434		773,926
Inter-segment	33,542	18,768	(9,576)	42,734	3,011	2,766	5,425	8,227	(62,163)	
Total revenue	278,987	158,690	(9,576)	428,101	197,186	162,938	27,203	20,661	(62,163)	773,926
Operating income	77,509	8,212	95	85,816	34,341	18,409	208	1,827	1,648	142,249

ISRAEL CHEMICALS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

IN U.S. DOLLARS

NOTE 3 - BUSINESS SEGMENTS (concluded)**:**

	Fertilizers				Industrial products	Performance products	Metallurgy	Other operations	Eliminations and unallocated expenses	Consolidated
	Potash	Phosphate	Eliminations	Total						
	In thousands									
Three months ended June 30, 2004 (unaudited):										
Sales and other operating revenues-net:										
Unaffiliated customers	211,876	113,658		325,534	170,947	143,883	17,921	13,220		671,505
Inter-segment	22,007	18,551	(3,136)	37,422	2,297	785	4,465	8,588	(53,557)	
Total revenue	233,883	132,209	(3,136)	362,956	*173,244	144,668	22,386	21,808	(53,557)	671,505
Operating income (loss)	58,478	867	(596)	58,749	*14,421	16,932	(1,456)	1,255	429	90,330
Year ended December 31, 2004 (audited):										
Sales and other operating revenues-net:										
Unaffiliated customers	829,238	479,546		1,308,784	696,582	576,143	70,209	63,237		2,714,955
Inter-segment	103,063	70,805	(26,773)	147,095	9,940	6,311	18,009	34,265	(215,620)	
Total revenue	932,301	550,351	(26,773)	1,455,879	706,522	582,454	88,218	97,502	(215,620)	2,714,955
Operating income (loss)	230,988	12,892	(403)	243,477	62,952	47,043	(3,261)	5,541	(1,384)	354,368

* Reclassified.

NOTE 4 - TAXES

a. On June 29, 2004, the Israeli Parliament (the "Knesset") passed the second and third readings of the Income Tax Ordinance Amendment (No. 140 and Ad Hoc Provision) Law, 2004 (hereafter - the 2004 Amendment), which was published in the Official Gazette of the Government of Israel on July 11, 2004. The 2004 Amendment provided 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 would be 35%, in 2005 - 34%, in 2006 - 32%, and in 2007 and thereafter - 30%.

As a result of the 2004 Amendment, the Company's income tax expenses (current and deferred) included in the income statement for the second quarter of 2004 have decreased by $ 18 million.

b. On July 25, 2005, the Israeli Parliament (the "Knesset") passed the second and third readings of the proposed Income Tax Ordinance Amendment (No. 147 and Ad Hoc Provision) Law, 2005 (hereafter - the 2005 Amendment). The 2005 Amendment further reduces the corporate tax rates stipulated under the 2004 amendment, and provides for the gradual reduction - commencing from January 1, 2006 - in the following manner: the rate for 2006 will be 31%, in 2007 - 29%, in 2008 - 27%, in 2009 - 26%, and in 2010 and thereafter - 25%.

As a result of the 2005 Amendment, the Company's income tax expenses are expected to decrease by $ 26 million (based on the deferred tax balances as of June 30, 2005). The resulting difference is to be carried to income in the third quarter of 2005.

NOTE 5 - ACCOUNTING CHANGES

Commencing with the financial statements for the three-month period ended March 31, 2005, the Company applies Israel Accounting Standard No. 19 issued by the IASB - "Taxes on Income", which went into effect on January 1, 2005. This standard prescribes the accounting treatment (recognition criteria, measurement, presentation and disclosure) required in financial statements in respect of taxes on income.

For the most part, the provisions of this standard are the same as the accounting principles applied by the Company prior to the implementation of the new standard.

Upon the introduction of Standard 19, the IASB issued Interpretation No. 7 - "Accounting Treatment of the Tax Savings in Respect of Capital Instruments Granted to Employees, Which are not Recognized as an Expense". As stipulated by said interpretation, commencing on January 1, 2005, the tax saving derived by the Company from the exercise of options granted to employees is to be carried to shareholders' equity in the period in which the benefit to the employees is allowed as a deduction for tax purposes.

With the exception of the aforesaid, the adoption of Standard 19 has not had a material effect on the Company's financial statements for the reporting periods.

NOTE 6 – EARLY RETIREMENT AGREEMENT

The collective labor agreement signed with the employees of Dead Sea Works Ltd. in 1978 included an arrangement for the early retirement of employees at the Sdom plant. Following the judgment of the National Labor Court concerning the annulment of the aforesaid early retirement arrangement, Dead Sea Works Ltd. and the employees' committee held talks. As a result of these talks, on July 19, 2005, a collective agreement was signed, which entitles the employees, to take early retirement under certain conditions, starting at the age of 60.

NOTE 7 - RECENTLY ISSUED ACCOUNTING STANDARD

In August 2005, the Israel Accounting Standards Board issued Israel Accounting Standard No. 22 – "Financial Instruments: Disclosure and Presentation", which is based on International Accounting Standard No. 32. This standard prescribes the rules for the presentation of financial instruments and the proper disclosure required. The standard sets forth the rules for classifying financial instruments, the rules for splitting and classifying compound financial instruments and the rules for offsetting financial assets and financial liabilities. The standard also prescribes the rules for classifying interest, dividends, losses and gains relating to financial instruments.

This accounting standard applies to financial statements for periods commencing on or after January 1, 2006. The standard is to be applied prospectively and, accordingly, comparative data that are presented in the financial statements for periods commencing from the effective date of the standard will not be re-presented. Financial instruments issued before the standard's effective date are to be classified and presented in conformity with the provisions of the standard from its effective date. Compound financial instruments (that include both an equity component and a liability component), which were issued in periods prior to the standard's effective date, and which had not yet been converted or redeemed at that date, are to be classified according to their component parts and are to be presented in conformity with the provisions of the standard, commencing from the effective date of the standard.

When the standard becomes effective, Opinion 48 – "Accounting Treatment of Option Warrants", and Opinion 53 – "Accounting Treatment of Convertible Liabilities" will be revoked.

In the Company's opinion, implementation of this standard is not expected to have a material effect on its financial statements in future periods.