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

Directors Report on the State of the Company's Affairs for the year ended December 31, 2004

This Directors' Report of Israel Chemicals Ltd. ("ICL" or "the Company") is presented as part of the Periodic report for 2004, and assumes that the reader has before him the other parts of the Periodic Report.

ICL operates in four main segments of operation which are grouped according to managerial-functional considerations, as described below:

- **ICL Fertilizers** – Mining, processing and marketing of potash, phosphate and its products, and fertilizers (including compound and special fertilizers).
- **ICL Industrial Products** – Production of bromine, salt, magnesia and chlorine from Dead Sea brines, manufacture and marketing of a range of bromine compounds, including flame retardants, bromides for industry, agriculture and water treatment, as well as a range of magnesia products and chlorine-based products for various uses.
- **ICL Performance Products** – Manufacture and marketing of phosphate-based downstream products, including phosphoric acid (food grade and technical grade), phosphate salts, food additives, hygiene products for the food industry, and other products – mainly based on alumina compounds, such as chemicals for the paper and water industries, pharmaceuticals and cosmetics, thermoplastic materials, etc.
- **ICL Metallurgy** – Manufacture and marketing of pure magnesium and magnesium alloys, mainly for the aluminium and automotive industries, pursuant to a joint venture with Volkswagen.

In addition to these segments, other activities of ICL include desalination and land transportation.

Management by segment is generally accomplished group-wide, on a managerial – functional basis, even where administrative division and legal ownership do not fully correspond.

1. RESULTS OF OPERATIONS

1.1 Principal Financial Results

Hereunder the condensed results of operations in the reviewed period, compared with the results for the corresponding period last year, in millions of dollars.

	2004		2003		10-12/2004		10-12/2003	
	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales
Sales	2,715.0	100.0	2,270.9	100.0	746.5	100.0	563.6	100.0
Gross profit	937.1	34.5	705.1	31.0	264.7	35.5	154.8	27.5
Operating income	354.4	13.1	203.0	8.9	100.9	13.5	29.2	5.2
Pre-tax income (loss)	309.5	11.4	127.0	5.6	82.2	11.0	(10.5)	(1.9)
Net income before extraordinary operations	226.1	8.3	119.9	5.3	75.4	10.1	19.9	3.5
Net income	250.5	9.2	103.1	4.5	81.8	11.0	13.8	2.5
Cash flow from current operations	429.9		450.3		163.7		77.5	
EBITDA (*)	521.8	19.2	370.4	16.3	147.2	19.7	73.9	13.1
Investments								
Purchase of shares in consolidated companies	-		1.6		-		1.6	
Property, plant and equipment, less grants	120.8		125.4		40.2		34.6	
Total	120.8		127.0		40.2		36.2	

* Calculated as follows (in millions of dollars):

	2004	2003	10-12/2004	10-12/2003
Net Income	250.5	103.1	81.8	13.8
Depreciation and Amortization	166.3	166.4	47.2	43.2
Financing Expenses, Net	38.2	32.3	11.4	3.6
Taxes on Income	59.2	26.5	(0.4)	(23.0)
Minority interests	0.1	(3.1)	0.6	(1.5)
Extraordinary or one-time events	7.5	45.2	6.6	37.8
	521.8	370.4	147.2	73.9

1.2 Results of operations for the period January – December 2004

Sales

Sales of ICL Group in the report period amounted to approximately $2,715.0 million, compared with $2,270.9 million last year, an increase of approximately 19.6%.

The increase in the Group's sales reflects an increase in turnover in all the segments of the Group's operations, mainly as a result of increased demand leading to higher prices, and in some segments also due to increased quantities sold. The appreciation of the euro and sterling exchange rates against the dollar also contributed to the increase in income from sales in Europe.

Below is a breakdown of sales by geographical area:

	2004		2003	
	$ millions	**%**	**$ millions**	**%**
Israel	209.0	7.7	168.2	7.4
North America	312.6	11.5	231.1	10.2
South America	332.2	12.2	273.5	12.0
Europe	1,186.5	43.7	1,105.1	48.7
Asia	549.9	20.3	402.3	17.7
Rest of the world	124.8	4.6	90.8	4.0
Total	2,715.0	100.0	2,270.9	100.0

The breakdown of sales in the report period shows an increase in sales in all of the Group's geographical markets. Particularly noteworthy is the increase in the proportional part of sales in Asia, which increased by about 37% compared with last year, mainly as a result of increased sales of potash and industrial products, and in North America (where sales increased by about 35%), largely as a result of increased sales from the Industrial Products and Metallurgy segments.

Gross Profit

Gross profit amounted to approximately $937.1 million, an increase of 32.9% compared with last year. The gross profit margin out of sales turnover reached 34.5%, compared with 31.0% in the corresponding period last year.

The increase in sales as described above, better utilization of production capacity in some products, and the ongoing efficiency measures, all contributed to the increase in gross profit. The increase in income was offset to some extent by a rise in the prices of some raw materials, notably sulfur (a principal raw material in the manufacture of phosphoric acid and phosphate fertilizers) and Bisphenol A (a principal raw material in the manufacture of flame retardant), an increase in energy prices, strike damages and a decrease in the production of some phosphate products, as well as the appreciation of the NIS against the dollar.

Sales and Marketing Expenses

Expenses amounted to approximately $444.9 million, an increase of about 18.1% compared with last year. The increase derived mainly from the rise in the prices of bulk marine transportation for the products of the Fertilizers segment due to a global increase in tariffs. Nevertheless, the average percentage increase in ICL's transportation costs was lower than the rise in the leading indices for bulk marine transportation prices, since the quantities of cargoes transported into the eastern Mediterranean area are higher than the quantities transported out, so that the tariffs for cargoes exported from Israel are relatively favorable. In addition, sales and marketing expenses increased due to increased quantities sold of some products compared with last year, and due to the effects of appreciation of the NIS and the euro against the dollar (on average for the period) on expenses in dollar terms. A certain rise in the expenses also derived from an increase in overland transportation costs, due to a rise in the price of diesel oil.

General and Administrative Expenses

These expenses totaled $105.7 million, an increase of about 9.9% compared with the same period last year. The increase derives from the effects of the appreciation of the euro and the NIS on expenses in dollar terms and from one-time expenses for external consultants and other costs, including for reorganization.

Research and Development Expenses

R&D expenses (net of grants from the Chief Scientist) amounted to approximately $32.1 million, an increase of about $3.0 million compared with last year.

Operating income

Operating income increased by some 74.5% compared with last year, reaching $354.4 million. The increase derived mainly from the sharp increase in gross profit as shown above. The percentage of operating income is 13.1%, compared with 8.9% last year.

Financing Expenses

Financing expenses amounted to about $38.2 million, compared with $32.3 million last year, an increase of about $5.9 million. The increase in financing expenses compared with last year, despite a decrease of about $181 million in the average balance of net financial liabilities, derives mainly from a rise of 0.5% in the average dollar interest rate for the period (weighted interest of loans at fixed and variable interest), and from an increase in expenses in respect of exchange rate differentials.

Other Expenses, Net

Other expenses offset by other income amounted to approximately $6.7 million.

In 2004 ICL recorded income of $43.6 million in respect of a capital gain from the sale of its indirect holding in shares of SQM, a capital gain of $4.4 million from the sale of Negev Industrial Minerals Ltd., and a capital gain of $5.2 million from disposal of real estate at Mifalei Tovala Ltd.

These revenues were offset against expenses that include mainly the following: At ICL Industrial Products – write-off of a production plant of approximately $5.3 million; at ICL Fertilizers – write-off of production facilities of approximately $13.4 million and expenses in respect of early retirement of employees of $12.4 million. Also included were expenses in respect of changes in actuarial assumptions in the pension plan of a consolidated overseas company at approximately $12.9 million and various damages sustained by fixed assets and production facilities due to severe flooding when streams overflowed their banks on October 29, 2004, inundating extensive areas of some of the Company's facilities in Sdom and causing large quantities of water and silt to penetrate the evaporation ponds at the Dead Sea. As a result of this occurrence, the power station ceased operation and production at some of the Company's facilities in Sdom was halted for several days. The Company sustained property damage and loss of profit as a result of the floods. As at the date of this report, the Company is still unable to estimate the extent of the damages with certainty. The Company pays a deductible (including through the Captive) of $12.5 million, which was recorded as an expense and charged to profit and loss. In the opinion of the Company's Management, existing insurance cover is sufficient for the balance of the damages.

Of the other expenses, net, approximately $40.0 million are non-cash expenses.

Last year, the Company's other expenses offset by other income amounted to about $43.7 million. These expenses included mainly write-off of production facilities at approximately $21.5 million, a provision for early retirement of employees of about $8.0 million, and expenses in respect of damage to fixed assets at about $8.1 million. Of the other expenses, net, approximately $32.0 million were non-cash expenses.

Tax expenses

These expenses amounted to approximately $59.2 million, compared with $26.5 million last year. The tax rate on pre-tax income fell from 20.9% last year to about 19.1% in the report period.

On June 29, 2004 the Knesset passed a law for amendment of the corporate tax rate in Israel. According to the provisions of this law, starting in 2004, the tax rate will be gradually reduced over a number of years until it reaches 30% in 2007. The reserve for deferred taxes is calculated at the tax rate expected to be in effect when the reserve funds are released. As a result of the change in the tax rates as laid down in this law and following additional adjustments in the tax rates used to calculate the reserve, and based on the tax rates expected to be in effect when the reserves become available, the Company's tax expenses decreased by about $14 million. Tax expenses in the current period also include adjustment of tax losses expected to be utilized in the coming years, and the effect of the differences between the measurement basis for tax purposes and the measurement basis of the financial statements, from taxable income at a zero tax rate in respect of "approved enterprises" and tax-exempt capital gains in respect of divestment of consolidated companies.

The low tax rate in the corresponding period last year derived mainly from the utilization of losses in respect of which no deferred taxes were generated in the past, and from differences between the measurement basis for tax purposes and the measurement basis of the financial statements.

For further details, see also Note 17 to the financial statements.

Net Income

Net income amounted to approximately $250.5 million, compared with $103.1 million last year. The net income before extraordinary operations amounted to approximately $226.1 million, compared with about $119.9 million last year.

1.3 Results of operations for the period October - December 2004

Sales

Sales of ICL Group in the quarter amounted to approximately $746.5 million, compared with $563.6 million last year, an increase of about 32.4%.

The increase in Group sales reflects an increase in turnover of all the segments of operation of the Group, as a result of price rises and higher quantities sold in some segments. The appreciation of the euro against the dollar also contributed to the increase in income from sales in Europe.

Below is a breakdown of sales by geographical area:

	10-12/2004		10-12/2003	
	$ millions	%	$ millions	%
Israel	66.7	8.9	44.1	7.8
North America	104.1	13.9	52.9	9.4
South America	65.1	8.7	57.0	10.1
Europe	307.8	41.3	277.9	49.3
Asia	167.7	22.5	105.1	18.7
Rest of the world	35.1	4.7	26.6	4.7
Total	746.5	100.0	563.6	100.0

Sales in the quarter increased in all geographical markets, especially North America (where sales increased by about 97%), Asia (about 60%) and Israel (about 51%). The breakdown shows a considerable increase in the proportional part of sales in North America, due to the increase in sales of the products of the Industrial Products and Metallurgy segments.

Gross Profit

Gross profit amounted to approximately $264.7 million, approximately 71% higher than last year.

The increase in income and the ongoing efficiency measures contributed to gross profit. Conversely, the flood damages at the Dead Sea during the quarter, the rise in the prices of various raw materials, including a rise in the cost of sulfur (an important raw material in the manufacture of phosphate fertilizers) and Bisphenol A (an important raw material in the manufacture of flame retardant). as well as rising energy prices and the appreciation of the NIS against the dollar, moderated the improvement in gross profit.

Sales and Marketing Expenses

These expenses amounted to approximately $125.3 million, an increase of about 35.0% compared with last year. The increase was due mainly to the increase in quantities sold of some products, the increased costs of bulk marine transportation and the effects of appreciation of the NIS and the euro against the dollar on results in dollar terms.

Operating Income

Operating income amounted to approximately $100.9 million, which is approximately 245.6% more than in the corresponding period last year. The percentage of operating income increased from 5.2% last year to 13.5% out of turnover in the quarter.

Financing Expenses

Financing expenses amounted to approximately $11.4 million, compared with about $3.6 million last year. The increase in financing expenses derives from the increase in the average interest rate and from the appreciation of the euro and the NIS against the dollar.

Other Expenses, net

Other expenses offset by other income amounted to approximately $5.4 million.

ICL recorded income of $48.8 million in respect of a capital gain from the sale of its holdings in shares and from the disposal of real estate in Be'er Sheva. This income was offset from the expenses, which include mainly write-off of production facilities of approximately $13.4 million, expenses in respect of early retirement of employees of $12.4 million in ICL Fertilizers, expenses in respect of a change in actuarial assumptions in the pension plan of a consolidated overseas company of approximately $12.9 million and various damages sustained by fixed assets and production facilities due to flooding (as explained above in Results of operations for the period January – December 2004) of approximately $12.5 million.

Last year, the Company's other expenses offset by other income amounted to about $36.2 million. These expenses included mainly write-off of production facilities of approximately $17.6 million, a provision for early retirement of employees of about $7.6 million, and expenses in respect of damage to fixed assets at about $8.0 million.

Of the other expenses, net, approximately $33.3 and $19.6 million are non-cash expenses for the fourth quarter of 2004 and 2003, respectively.

Tax income/expenses

Tax income amounted to approximately $0.4 million, compared with expenses of about $23 million in the same period last year.

The decrease in the tax rate derived mainly from a tax-exempt capital gain from the sale of a consolidated company, from differences between the measurement basis for tax purposes and the measurement basis of the financial statements, and from taxable income at zero percent in respect of "approved enterprises".

Net Income

Net income for the quarter amounts to approximately $81.8 million, compared with approximately $13.8 million last year. Net income before extraordinary operations amounted to approximately $75.4 million, compared with $19.9 million in the same quarter last year.

2. SEGMENTS OF OPERATION

The segments of operation of ICL are presented below according to the managerial division into segments described in the preface of this report.

Sales CIF by segment of operations	2004		2003		10-12/2004		10-12/2003	
	$ millions	% of total sales	$ millions	% of total sales	$ millions	% of total sales	$ millions	% of total sales
ICL Fertilizers	1,455.9	49.7	1,234.2	50.3	385.7	47.7	293.1	48.1
ICL Industrial Products*	706.5	24.1	560.8	22.9	210.7	26.1	142.1	23.3
ICL Performance Products	582.5	19.9	516.6	21.1	153.1	18.9	139.4	22.9
ICL Metallurgy	88.2	3.0	73.8	3.0	23.1	2.9	17.6	2.9
Others and setoffs	(118.1)		(114.5)		(26.1)		(28.5)	
Total	2,715.0	100.0	2,270.9		746.5		563.6	

* Including agricultural products.

Remark: Sales data in the segments and their percentages out of total sales, are before setoff of inter-segment sales.

Operating income by segment of operations	2004		2003		10-12/2004		10-12/2003	
	$ millions	% of segment sales	$ millions	% of segment sales	$ millions	% of segment sales	$ millions	% of segment sales
ICL Fertilizers	243.5	16.7	155.5	12.6	68.0	17.6	21.6	7.4
ICL Industrial Products*	63.0	8.9	16.6	3.0	24.0	11.4	0.7	0.5
ICL Performance Products	47.0	8.1	35.6	6.9	8.9	5.8	8.2	5.9
ICL Metallurgy	(3.3)	(3.7)	(11.9)	(16.1)	0.2	0.7	(2.5)	(14.0)
Others and setoffs	4.2		7.2		(0.2)		1.2	
Total	354.4	13.1	203.0	8.9	100.9	13.5	29.2	5.2

* Including agricultural products.

2.1 ICL Fertilizers

Sales

The volume of operations in the segment in 2004 amounted to approximately $1,455.9 million, an increase of about 18.0% compared with last year. The increase in sales turnover arises from the positive market conditions for fertilizers, which were reflected in increased demand followed by price rises. In the fourth quarter an increase in quantities sold of potash and fertilizers was recorded. The appreciation of the euro and the pound sterling against the dollar also contributed to the rise in prices in dollar terms.

Operating income

Operating income in the segment amounted to approximately $243.5 million, an increase of about 56.6% compared with last year. The operating margin on sales was about 16.7%, compared with 12.5% last year. The improved operating income was achieved mainly as a result of the increase in income noted above. However, the effect of the increase in various production costs, including the one-time effects that harmed the results of fertilizers and phosphates, the effect of the strike in Israel's ports during the year, the effects of the floods in Sdom on operations in the fourth quarter, and the rise in the prices of bulk marine transportation compared with last year, all moderated the positive effect on operating income. The rise in transportation prices also affected the prices of imported raw materials, particularly sulfur. Nevertheless, due to the Company's logistical advantage over some of its competitors, the effects of the rise in marine transportation prices from Israel to its sales destinations were smaller as compared with these competitors. During the second quarter, Negev Industrial Minerals Ltd. was sold and the results of its operations are no longer included in the results of the segment.

Potash

Sales revenue from potash includes sales by Dead Sea Works (excluding the operations of Dead Sea Salts), Iberpotash and Cleveland Potash Ltd. ("CPL").

Potash – Sales Revenue and Income

Millions of dollars	2004	2003	10-12/2004	10-12/2003
Income*	932.3	765.4	264.2	190.1
Operating profit	231	151.3	62.1	24.9

* Including revenue from inter-segment sales

The increase in sales revenue is the result of the rise in the prices of potash in response to lively market demand, which was partially offset by smaller quantities sold due to relatively low sales in the first quarter. Starting from the second quarter, selling prices and sales improved considerably (particularly in the fourth quarter). The improvement in operating income, which increased in the report period by about 52.7%, derived primarily from the rise in the selling prices.

Potash – Production and Sales

Thousands of tons	2004	2003	10-12/2004	10-12/2003
Production	5,387	5,139	1,329	1,275
Sales*	5,137	5,198	1,356	1,157

* To external customers.

Production in the period was higher than last year last year due to the operation of "Stage 10" – expansion of the production capacity of the potash facility in Sdom. The increase was achieved despite the floods that disrupted normal production at the facility in Israel during the fourth quarter (see Section 1.2 above).

In the quarter, a considerable increase in sales is attributable partly to the postponement of shipments from the third quarter.

Brine percolation exists at one of the dikes of the evaporation ponds of the ICL Fertilizers segment at the Dead Sea. After consultation with international experts, ICL Fertilizers has taken and is taking various maintenance actions to preserve the stability of the dike. The experts were of the opinion that there is no real threat to the stability of the dike. During and after the reporting period, a number of fissures were seen on both sides of the dike, near its edges. ICL Fertilizers is continuing to monitor the situation and is consulting on the matter with experts in Israel and abroad.

Fertilizers and Phosphates

Sales revenue for these items derives from sales in Israel and abroad of phosphate rock (as a raw material and for direct fertilization), fertilizers (including phosphate, compound and fully soluble fertilizers, which include differing proportions of nitrogen, phosphorus and potassium), phosphoric acid used as a raw material for the production of fertilizers ("green acid”), as well as other products.

Fertilizers and Phosphates – Sales Revenue and Income

Millions of dollars	2004	2003	10-12/2004	10-12/2003
Income*	550.4	497.0	129.3	114.0
Operating profit	12.9	3.1	6.0	(3.8)

* Including revenue from inter-segment sales.

The increase in sales revenue (by about 11% compared for the year and by about 15% for the quarter) derives mainly from a rise in the prices of most products due to improvement in the phosphate fertilizer market, and partly also as a result of the effects of appreciation of the euro against the dollar and increased quantities of fertilizers sold. In contrast, sales of phosphate rock decreased, as did sales of green acid to outside customers, due partly to the increase in the uses of this acid within the ICL Group.

The increase in income as noted above and the improvement in the current operation of ICL Fertilizers’ production sites, brought an increase in operating income in the quarter and in the year. This was despite the disruption of operations in the first quarter (due, among other reasons, to the strike at Zafir and at Rotem, the damage to the sulfuric acid production facility and the breakdown of an electricity turbine, which halted production at the Company's site at Mishor Rotem for several days), and despite the negative effects of a rise in the prices of sulfur (ex factory), marine transportation and other expenses, and the rise in NIS inputs as a result of the appreciation of the NIS exchange rate against the dollar. In addition, the closure of one of the Company's production sites during part of the year, as part of the Company's policy to match phosphate rock production to uses, had an adverse effect on operating income.

Fertilizers and Phosphates – Production and Sales

Thousands of tons	2004	2003	10-12/2004	10-12/2003
Phosphate rock				
Production	3,290	3,708	981	958
Sales*	566	704	101	138
Fertilizers				
Production	1,696	1,638	409	385
Sales*	1,664	1,676	323	291

* To external customers (net of sales to Group companies).

Phosphate rock (as an end product) is produced according to demand, both for internal uses and for sales, while maintaining suitable stock levels.

The decrease in rock sales in the period was due largely to the policy of the segment to divert most of the output to internal uses of higher added value in the manufacture of acids and fertilizers.

Production of fertilizers increased to record levels as a result of improvement in the performance of the production facilities. Sales of fertilizers also reached record quantities, with most of the increase in sales to Brazil due to the higher demand in this important target market.

In December 2004 the Board of Directors of the Company approved a strategic plan to change the source of phosphate in the Fertilizers segment, which is expected to lead to significant changes in the beneficiation and production processes in the facilities while reducing the costs of those processes and improving profitability (see also Note 22(2) to the financial statements).

2.2 ICL Industrial Products

Sales

Sales in this segment in the report period amounted to approximately $706.5 million, an increase of about 26.0% compared with last year. The increase in sales derives mainly from increased sales quantities in most areas of operation, due to the recovery of target markets for the segment's products. In addition, the prices of most products rose both in the original currency and in dollar terms, mainly in the fourth quarter.

Income from sales of flame retardants increased mainly as a result of a marked recovery in demand in the electronics market, which led to higher quantities sold and to price rises, some of them considerable.

Sales volumes of industrial bromine products increased, particularly elementary bromine, which was accompanied by a rise in price and in quantities sold, and clear brines for the oil and gas industries, for which prices rose due to increased demand. Also contributing to the increase were the recovery of the global economy, the shortage of bromine (mainly in China) and sales to the Great Lakes Chemicals Company under a multi-year supply agreement signed in September 2003.

Sales quantities of agricultural products increased in the period.

In biocides for water treatment, sales volumes increased in the period despite increased import of competing products, mainly from the Far East, causing a decrease in prices over the year (which was tempered by an improvement in the fourth quarter). Sales to the paper industry also showed signs of improvement.

In December 2004, in a preliminary ruling, a temporary levy was imposed in respect of the dumping of chlorine-based biocides imported to the U.S.A. from China and Spain. This levy, on which the final ruling is expected in June 2005, had a positive effect on the selling prices of such biocides sold in the U.S.A.

In magnesia products for the refractory industry and other uses, sales of specialty and calcined products increased and prices rose sharply in response to improved demand for some of the products.

Quantities of sales of Dead Sea salts (chlorine-based products from the Dead Sea) increased compared with last year, due mainly an increase in sales of magnesium chlorine solids.

Operating income

Operating income in the segment was approximately $63.0 million, an increase of about 278.4% compared with last year.

The increase stemmed mainly from increased sales volumes and higher prices for some of the products as noted above, and from continued improvement in the segment's operations. The increase was partially offset by a rise in the prices of some production inputs, including raw materials and energy costs, as well as the appreciation of the NIS against the dollar.

2.3 ICL Performance Products

Sales

Sales in this segment amounted to approximately $582.5 million, an increase of about 12.7% compared with last year. Quantities sold of most of the segment's production lines increased, particularly white acid (food-grade and technical-grade phosphoric acid), food additives, and chemicals for water and paper. In addition, the prices of some products rose, among them white acid.

The increase in sales turnover in dollar terms, derived, inter alia, from the strengthening of the euro against the dollar. Conversely, the ongoing economic slowdown in Western Europe, the surplus production capacity in some of the segment's markets and intensifying competition with companies whose expenses are denominated in dollars, adversely affected the sales of the segment in some of its areas of operations.

Operating income

Operating income in the segment amounted to $47.0 million, about 32.1% higher than last year. The margin was about 8.1%, compared with 6.9% last year.

The above-mentioned increase in sales, along with operational improvements in some of the segment's areas of operations (particularly white acid) together with the ongoing efficiency and savings activities, contributed to the improvement in profitability. Conversely, the appreciation of the euro against the dollar led to a decrease in the margin on sales to customers whose purchases are denominated in dollars. Operating income was also adversely affected by the shutdown of the Rotem site in the first quarter, which harmed production and sales of white acid, and by a certain increase in costs.

2.4 ICL Metallurgy

Sales

Sales in this segment amounted to approximately $88.2 million, an increase of about 19.5% compared with last year.

The increase in sales derived mainly from a rise in selling prices of the various types of magnesium, due partly to the strengthening euro against the dollar. The quantity sold in the year and in the quarter was slightly higher than in the same periods last year, along with a rise in the share of magnesium alloys in the sales mix. The temporary levy imposed within the framework of the anti-dumping claim filed in the U.S.A. against manufacturers of magnesium from China and Russia and the rise in the prices of the Chinese product following an increase in the prices of the main production input prices in China, are the principal factors in the rise in the prices of magnesium in global markets. The improvement in the world economy, notably in the U.S.A., together with a rise in prices in the U.S.A. due to the anti-dumping levy, led to a considerable increase in the market share of the segment in the American market.

Operating loss

The operating loss in the segment amounted to approximately $3.3 million, compared with $11.9 million last year. In the fourth quarter the segment had an operating income of $0.2 million, compared with a loss of approximately $2.5 million in the same period in 2003.

The decrease in the loss compared with last year is due to the rise in prices noted above, along with the increase in production, the ongoing efficiency measures and a decrease in expenses, which were offset by a rise in some production inputs, particularly the costs of energy, materials and maintenance.

3. THE FINANCIAL POSITION AND SOURCES OF FINANCING OF THE GROUP

3.1 ICL's policy is to reduce its financial leverage while diversifying sources of financing among various financial instruments and between local and foreign sources.

In the report period, the trend of decreasing net financial liabilities of the Group continued, and at the end of the period those liabilities amounted to $569.0 million after a decrease of $304.0 million during the year that was achieved by directing free cash flow and the proceeds from divestment of investments (amounting to approximately $120 million) to this purpose.

The Group's sources of financing are primarily bank loans. At the end of 2004 a foreign company from the ICL Group completed an issue of $125 million of non-listed debentures to institutional investors abroad, for a period of 5 to 10 years at an average interest varying from LIBOR + 1% – 1.15%. This transaction was closed and signed at the beginning of 2005, after the balance sheet date.

Along with banking sources, the Group also avails itself of non-banking short- and long-term sources for diversification of the portfolio. In 2001 the Company issued approximately $75 million of convertible debentures. By December 31, 2004, about $39.3 million of these debentures had been converted to shares of ICL, and as at the date of publication of this report, another $35 million of the debentures had been converted, so that almost all the debentures issued have been converted.

In July 2004, ICL and some of the Group companies entered into an agreement for a securitization transaction in which the companies would sell all their customer debts to a foreign company established for that purpose and which is neither owned nor controlled by the ICL Group. The securitization transaction was made with Rabobank, in a maximum total amount of $220 million, and replaced a similar transaction made with Bank of America in 2002. The transaction with Rabobank is for five years, subject to annual renewal of the backup credit line for the transaction. As at December 31, 2004 the consideration received in respect of the sale of customers as aforesaid amounted to approximately $200 million out of the maximum volume of the securitization transaction.

The table below shows the main components of cash flows and uses (in millions of dollars):

	2004	**2003**
Cash flows from current operations*	430	450
Purchase of property, plant and equipment, net	(119)	(126)
Realization of investments	120	-
Dividend	(89)	(63)
Changes in financial liabilities, net	(298)	(274)
* Of which – securitization, net	22	(86)

For further details, see Note 4(b) to the financial statements.

3.2 **Insurance**

The ICL Group carries property insurance for physical damage and loss of profits, under policy terms customary in this industry. The extent of coverage is $450 million, which is in accordance with the expected maximum loss from an earthquake in the Dead Sea region, based on an assessment prepared for the Company by experts. The Group’s property in Israel is insured against physical damage resulting from an act of terror, in accordance with the Property Tax and Compensation Fund Law.

CPL does not purchase insurance for underground property damage, since in the opinion of CPL, the cost of the premium asked in relation to the coverage offered does not justify purchasing this insurance. The company has ascertained that a similar policy is followed by peer companies in this field in the world.

The Group carries product liability insurance, third party insurance and employers' liability insurance in the sum of $350 million. According to professional surveys, this coverage is similar to the average coverage taken out by chemical companies around the world with sales figures similar to those of ICL. Coverage is under customary policy conditions in this industry. The Group is also insured under other policies, including marine cargo insurance, credit insurance, insurance for gradual ecological damage, directors & officers insurance and fidelity insurance.

The ICL Group owns a "captive" reinsurance company, allowing direct access to the international reinsurance market and the possibility of taking retentions beyond the single company level, in order to reduce the cost of the premiums paid to the external insurance market, and the cost of risk to the Group.

As at the date of this report, the retention of the captive in property insurance stands at $7.5 million per event, and $15 million as annual aggregate. The retention of the captive in other policies is , as of the date of this report, approximately $6 million in aggregate.

During the year there was one material event at the Company's facilities following severe floods that damaged property and resulted in loss of profits. The damages in respect of this event are insured under the property insurance over and above the retention. See Section 1.2 above, under the heading "Other expenses, net".

4. INVESTMENTS

In the report period, investments in property, plant and equipment net of investment grants amounted to approximately $120.8 million, compared with investments in property, plant and equipment less grants amounting to $125.4 million last year.

5. HUMAN RESOURCES

The total number of employees at ICL Group as at December 31, 2004 is 8,546, compared with 8,770 on December 31, 2003. The decrease is mainly the result of ongoing efficiency measures and cutting Company costs, as well as a decrease of 50 employees due to the same of Negev Industrial Minerals.

6. MARKET RISK EXPOSURE AND MANAGEMENT

6.1 The CFO of ICL is responsible for managing the market risks to which ICL is exposed.

6.2 Regarding ICL's operations and its business environment as described in Section 1 above, ICL is exposed to the following principal market risks:

A. **Prices – Selling prices of certain products and prices of certain inputs:**

Some of ICL's products and of some of its inputs are characterized by given market prices which ICL has limited ability to affect. The Group is exposed to changes in the prices of these products and inputs.

The prices of ICL's products have no hedging instruments. The ICL Group protects some marine transportation prices by means of long-term contracts. As at the date of this report, ICL does not hedge fuel oil prices.

B. **Exchange rates and the CPI:**

The dollar is the principal currency of the business environment in which most of the Group's companies operate. The majority of operations – sales, purchase of materials, selling and marketing expenses and financing, as well as the purchase of property, plant and equipment – are transacted in foreign currency, mainly dollars, and so the dollar is used as ICL's functional currency of measurement and reporting.

ICL has a number of consolidated subsidiaries overseas whose operations are independent and autonomous. The currencies of measurement of those companies are the euro and the pound sterling.

B.1. Some of ICL's sales in non-dollar currencies expose it to changes in the exchange rates of those currencies against the dollar. The income and expenses of the consolidated overseas companies which operate independently / autonomously in non-dollar currencies, do not constitute exposure, however the income and expenses of those companies in dollars do expose those companies to fluctuations in dollar exchange rates vis-à-vis the currencies in which they operate.

ICL's exposure as aforesaid is measured after deduction of expenses from income in the non-dollar currencies and after deduction of income from expenses in dollars of those companies whose measurement is a non-dollar currency .

ICL's policy is to hedge a considerable portion of this exposure by way of various financial instruments, including derivatives.

The prices of certain transactions, despite not being effected in dollars, are affected by the changes in dollar exchange rates as compared with the transaction currency and are adjusted to changes in the exchange rate during a short period. ICL does not hedge against this temporary exposure.

B.2. Part of the costs of ICL's inputs in Israel are denominated and paid in NIS. Thus, ICL is exposed to a strengthening of the NIS exchange rate against the dollar (NIS appreciation). ICL decides whether to hedge this exposure and at which level to hedge in accordance with market conditions and forecasts of exchange rate developments.

B.3. The results for tax purposes of the Company and some of the ICL companies are measured in a currency other than the dollar – in Israel, CPI-adjusted NIS, and abroad, in the local currency. As a result, ICL is exposed to the difference between the percentage of the change in the dollar exchange rate and the basis of the measurement for tax purposes. ICL does not hedge against this exposure.

B.4. ICL companies have severance pay commitments which are made in local currency, and in Israel they are also affected by rises in the CPI. The ICL companies in Israel have reserves to cover part of these commitments, which are denominated in NIS and affected by the performance of the funds in which the sums are invested. The Company does not hedge against this exposure.

B.5. ICL has monetary assets and liabilities in non-dollar currencies or in currencies which are not linked to the dollar, and correspondingly in respect of the local currency in autonomous overseas companies (except as described in sub-sections B.3 and B.4 above). The differences between the assets and liabilities in the various currencies create exposure. The Company's policy is to hedge against (most of) this exposure by means of financial instruments, including derivatives.

B.6. Investment in independent / autonomous subsidiaries – ICL has consolidated subsidiaries overseas whose operations are independent and autonomous. The end-of-period balance-sheet of these companies is translated into dollars at the end of the period at the exchange rate of the dollar and the currency in which these companies report. The beginning-of-period balance-sheet balances, as well as capital changes during the period, are translated into dollars at the exchange rate at the beginning of the period or on the date of the change in capital, respectively. The differences arising from the effect of the change in the exchange rate between the dollar and the currency in which the companies report, create exposure. The effects of this exposure are charged directly to shareholders' equity. The Company does not hedge against this exposure.

C. **Interest Rates:**

The Group has variable-interest loans which expose its financial results (financing expenses) to changes in those interest rates.

ICL hedges against part of this exposure by means of financial instruments, including derivatives.

As at December 31, 2004, ICL has cap options to secure a LIBOR interest ceiling of 4%, which cover a notional amount of $130 million. ICL has also purchased and written interest options which serve to fix the LIBOR interest in a range of between 2% and 6.25% (collar). The options cover a notional amount of $326 million. Some of these transactions combine the writing of options under which, if the variable LIBOR-based interest exceeds 6.1% - 7%, the transactions at such time will be temporarily void.

After the balance-sheet date, the Company purchased collar options to secure the LIBOR interest outside a range of 3% to 4.89%. The options cover a notional amount of $50 million.

6.3 Derivatives transactions are made with banks. ICL believes that there is no consequent credit risk. ICL does not demand and does not provide collateral for these derivatives.

6.4 ICL's companies regularly monitor the extent of the exposure and hedging in the various areas. The hedging policy for all types of exposure is discussed by the boards of directors of the Company and of ICL's companies as part of the annual budget discussions. The finance committees of ICL's companies receive quarterly reports for discussion of the quarterly results, as a control device for application of the policy and for its revision if necessary. The managements of the companies apply the policy with reference to actual developments and to expectations in the various markets.

6.5 ICL uses financial instruments and derivatives (hedging instruments) for hedging purposes only. These hedging instruments neutralize ICL's exposure as described above. Thus, ICL includes the financial results of the hedging transactions on existing assets and liabilities and on solid commitments for the results of the assets and liabilities which they protect. The financial results of all other hedging transactions are charged to financing expenses.

6.6 **Linkage Base Report**

Hereunder the linkage terms of monetary balances:

Composition as at December 31, 2003
(in thousands of dollars)

	Dollar-linked	Non-dollar currency (mainly euro)*	CPI-linked	Unlinked	Non-monetary	Total
Assets:				In NIS		
Current (including long-term maturities)	267,557	297,333	21,056	52,423	564,005	1,202,374
Non-current	1,363	21,323	13,099	5,632	1,816,915	1,858,332
Liabilities:						
Current (including long-term maturities)	339,487	346,212		241,591		927,290
Long term	443,185	147,869	3,723	123,414	1,415,225	2,133,416
Total balance-sheet balance, net	513,752	175,425	(30,432)	306,950	(965,695)	-

* Including autonomous units reporting in euros whose euro liabilities do not generate exposure.

6.7 Derivative Positions

Here are the details on this subject

Hedging transactions against the effects of changes in exchange rates on cash flows – In thousands of dollars				
	Nominal Value Up to One Year		**Fair Value Up to One Year**	
	Long	**Short**	**Long**	**Short**
The "long" and "short" positions relate to a counter-currency to the dollar. Direction of transaction in derivatives is purchase of dollars. **Currency: $/euro in $ '000s**				
FORWARD				
Setoff recognized for accounting	11,492		138	
Setoff not recognized for accounting	500	12,000	70	-622
Put Options				
Setoff recognized for accounting		109,261		561
Call Options				
Setoff recognized for accounting		114,246		-6,619

Currency: $/JPY in $ '000s				
FORWARD				
Setoff recognized for accounting		6,247		-105
Put Options				
Setoff recognized for accounting		15,250		44
Call Options				
Setoff recognized for accounting		15,250		-335
Currency: $/GBP in $ '000s				
FORWARD				
Setoff recognized for accounting	3,950		292	
Put Options				
Setoff recognized for accounting		2,200		-2
Call Options				
Setoff recognized for accounting		2,200		-89
***The "long" and "short" positions relate to the euro., Direction of transaction in the derivatives is purchase of GBP*.**				
Currency: GBP / euro in $ '000s				
FORWARD				
Setoff recognized for accounting	324	18,426	-	-619
Setoff not recognized for accounting		29,871		-406
Put Options				
Setoff not recognized for accounting		2,760		-25
Currency: $/euro in $ '000s				
Put Options				
Setoff not recognized for accounting		1,950		43
Sell Options				
Setoff not recognized for accounting		1,980		-62

Interest-hedging transactions – for hedging changes in variable interest rate (LIBOR) on dollar loans

	Nominal Value				Fair Value			
	Up to one year		More than one year		Up to one year		More than one year	
	Long	Short	Long	Short	Long	Short	Long	Short
Swap			18,000				-774	
Caps			456,000				2,972	
Floors			326,000				-1,069	

7. ACCOUNTING ISSUES

7.1 Accounting and financial expertise

A directive of the Securities Authority from October 20, 2003 requires public companies to define the appropriate minimum number of directors having accounting and financial expertise and to disclose which directors serving in the company meet that requirement. The directives states that these directors should be those who do not fulfill another function in the company and who, because of their education, experience and qualifications, have a high level of expertise and understanding of matters concerning accounting, internal auditing and financial statements, to an extent that allows them a profound degree of understanding the company's financial statements and to raise issues and questions in connection with the financial reporting of the company, for the purpose of approval and publications of correct, accurate and complete financial statements.

The Board of Directors of the Company decided to set the minimum number of such directors at three.

The Board of Directors believes that this number enables it to fulfill the duties imposed upon it by law and its documents of incorporation, and particularly in relation to its responsibility to ascertain the financial condition of the Company and to draw up and approve the financial statements.

In making this determination, the Board of Directors took into consideration the size of the Company, the complexity of its operations, the rage of risks to which the Company is exposed, the control system currently in place in the Company – both internal auditing and the auditing of the external auditors, the existence of boards of directors in the segments of operations of the Company having a skilled and professional member, including outside directors, who examine the operations of each segment and ascertain that the segment is correctly described in the segment's reports and in the financial statements of the segment companies.

In assessing the accounting and financial expertise of the directors, considerations included their education, their managerial experience in public companies, the number of years they have served as directors in public companies and the extent of their knowledge of and proficiency in the following subjects: accounting and auditing issues that are typical of the sector in which the ICL Group operates, the role of the auditor, the duties imposed on him and the reciprocal relations between a reasonable director and the auditor, the processes involved in the preparation of financial statements according to the law and Company procedures, and the internal auditing system in the Company.

The Board of Directors of the Company believes, as at the date of this report, that of the ten members of the board of the Company, Messrs. Yossi Rosen, Gilad Shavit, Haim Erez, Yaakov Dior, Moshe Widman, Avisar Paz, Ben Rabinovitz and Amnon Sadeh have the accounting and financial expertise referred to in the directive. Details of their education and experience are presented in the Periodic Report. Of these directors, Messrs. Yaakov Dior and Ben Rabinovitz, who are outside directors, do not serve as directors in the subsidiaries of ICL. All the other directors having accounting and financial expertise also serve as members of the boards of directors of the private subsidiaries of ICL.

7.2 Critical accounting estimates

The preparation of the financial statements according to accepted accounting principles requires the Management of the Company to use estimates that influence the assets and liabilities in the balance sheet, the contingent liabilities and the Company's results in the report period. The Management bases the estimates on past experience and on additional factors which it believes to be relevant to the circumstances. These estimates are critical since any change in them can affect the financial statements.

Pension liabilities

In calculating its the pension liabilities, the Company uses various estimates. These include, among things, the interest rate for discounting of the Company's pension liability, the expected long-term yield in respect of the pension fund assets, the estimate of long-term growth in wages and the estimated life expectancy of those entitled to the pension.

The estimate of the interest rate for discounting the Company's pension liabilities is based on the yield of long –term bonds. The yields of long-term bonds fluctuate according to market conditions. Consequently, the interest rate for discounting liabilities will change as will the pension liabilities.

The estimate of the long-term yield in respect of the pension fund assets is based upon the expected long-term yield of the portfolio of assets according to the composition of the portfolio of the pension fund. Changes in the capital market or changes in the composition of the pension fund assets may cause a change in the estimated yield of the pension fund assets, and therefore to a change in the pension fund.

The estimate of the growth in wages is based upon the Company's estimate according to its past experience and current labor contracts. This estimate may not correspond to the actual growth in wages.

The estimate of the life expectancy is based upon actuarial research published in each country. In reality, this research is updated every few years and accordingly, the life expectancy may change.

The environment

The ICL Group manufactures fertilizers and chemical products and is therefore exposed, in the normal course of its business, to liabilities and obligations arising from laws relating to the environment and related issues. The Group invests considerable amounts in complying with the requirements of the law. The Company records a liability in its books when such a liability is foreseen and can be estimated. The estimate of the liability is based mainly on experience and on the opinion of legal advisers and other experts. As explained in Note 19 to the financial statements, there are several legal claims pending against the Company, the outcome of which could influence its business results.

Standard 15 – Impairment of assets

Under Standard 15, upon signs of a decrease in value, the Company examines whether the stated value of the asset in the Company's books is recoverable from the cash flow expected from that asset. The recoverable amount of the asset is determined at the higher of the net selling price of the assets and the present value of the cash flow expected from continued use of the asset, including the cash flow expected when the asset is taken out of service and realized in the future.

The circumstances likely to give rise to concern of impairment can be a change in regulation such in respect of the environment, a change in the rate of return, physical damage to facilities, termination of the operation of facilities, a change in the business environment, etc.

In calculating impairment, estimates are made for future cash flows, the growth forecast for the operation of the facility in the short term and the long term and in the discount rate reflecting also the risk of the sector to which the activities belong. A change in actual results compared with the estimate can influence the need for making such a reduction and as a consequence, the assets and results of the Company.

8. INTERNAL AUDITING AND COMPLIANCE

8.1 Internal compliance plans

ICL has internal compliance systems in place throughout the Group in order to ensure compliance with the provisions of relevant laws. Appropriate directors and office bearers of companies in the Group have been informed that, as part of their managerial responsibilities, they are required to ensure that the company in which they act is in compliance with the law. These issues are also examined on a regular basis by the managements and boards of directors of the various companies. *Inter alia*, internal compliance programs have been prepared and are in operation in the fields of restrictive trade practices, securities law, and prevention of sexual harassment; seminars were held for managers and employees involved in these areas, regular reviews are undertaken of the implementation of the provisions of the law, etc.

8.2 Internal audit

The ICL Group has an internal auditing system to ensure compliance with requirements of the law and good business management. The Company and the various segments in Israel have audit committees and internal auditors, and internal audits are regularly conducted in the companies of the Group in Israel and overseas.

a. The name of the internal auditor in the corporation: Yoav Lubinsky.
Date on which he took office: January 1, 2001.
His qualifications for the job: C.P.A. (Isr., UK), qualified internal auditor, academic, completed a course at Harvard University for management development, formerly the comptroller of the corporation.

b. Employer: A subsidiary of the corporation.

c. Scope of work of the internal auditor and team which he heads: The internal auditor spends part of his time serving as internal auditor of ICL (including organization, management and supervision of the internal auditing in the entire Group in Israel and abroad) and the remainder as internal auditor of some of ICL's business segments. For the internal audit of ICL Fertilizers the auditor is assisted by two full-time employees of ICL Fertilizers and by outsourcing to a varying degree, mainly abroad, The internal audit in the other segments is accomplished by three full-time employees of the segments and by some outsourcing.

d. The considerations in determining the current and multi-year internal audit plan in the corporation: The plan is based on the guidelines of the Board of Directors and the Audit Committee, the current auditing needs of the Management and risk assessments. The scope of the internal auditor's work is determined according to a cycle enabling the auditing of subjects in material areas in the Company once every four years.

e. Auditing in subsidiaries: At subsidiaries which are material holdings of the corporation, an internal audit is carried out in accordance with the audit plan as referred to in sub-section d. above.

f. Auditing standards: The internal auditor carries out the audit in accordance with accepted standards in Israel and worldwide.

g. The internal auditor answers to the CEO and the Chairman of the Board. Commencing 2005 – to the Chairman of the Board.

h. Report frequency: A folder of audit reports is submitted to the Audit Committee twice a year – in February and in August, with specific discussions where necessary. The Audit Committee met eight times in 2004.

i. Assessment of the audit: The internal auditor, the Audit Committee and the Board of Directors of the Company believe that this scope, character, continuity of action and the work plan of the internal auditor, are reasonable and enable the realization of the purpose of internal auditing in the corporation.

   The internal auditor has access (himself or by means of outsourcing to CPAs), for the purpose of fulfilling his function, to all information as referred to in Section 9 of the Internal Audit Law, 5752-1992, including to any ordinary or computerized data, any data base and any automatic data processing work plan of the body in which the audit is being carried out.

9. SOCIAL-COMMUNITY INVOLVEMENT OF THE ICL GROUP

ICL focuses its community engagement in the towns and development areas in the Negev – Dimona, Yeruham, Arad and Be’er Sheva, and in the north of Israel – Kiryat Ata and Haifa, where most of the employees of the companies in the Group live, in recognition of the need to be involved in and to support the needs of the community, cooperation and enrichment of residents, and mutually, of employees.

ICL’s efforts are mainly in the Negev, for disabled children, women and children at risk, populations in socioeconomic distress and those with special medical needs.

The financial contribution of the ICL Group in 2004 amounted to approximately $1.42 million (about NIS 6.1 million). Some of the projects in which ICL, its managers, employees and their children, as well as ICL pensioners, are involved, are listed below:

9.1 **A network of clubs for children at risk**

In 2001, the Boards of Directors of the Israel Corporation and ICL formulated a strategic plan for the Group's social and community involvement. The main project is the "adoption" of a network of clubs for children aged 3 – 16 who are at risk.

Pursuant to the resolution, the companies undertook to assist for five years in the development and upkeep of the clubs, both by financial and material means (money and equipment), and with educational and value content by means of active and close contact and participation of ICL employees and pensioners in club activities. Each of the principal ICL companies adopted a specific town in the Negev or the north of the country, and each production facility or department of each company adopted one of the clubs in the company's adopted town. The connection is on a warm, personal basis and employees act as tutors, friends, leaders and represent the warm parental figure that these children lack.

These clubs are a therapeutic framework, a model for the organized home and functional family, intended for children aged 6 – 13. The children who attend these clubs are defined as being at risk, whose parents are unable to look after them during the day for various reasons – financial, violence, neglect, dysfunction, and so on.

The number of clubs adopted by ICL companies has grown steadily from the six "pilot" clubs adopted in 2001 in Yeruham, Be'er Sheva, Dimona, Arad, Kiryat Ata and Haifa, to 26 clubs at the end of 2004. In this context, ICL is also adopting the Be'er Sheva branch of the Down's Syndrome Children's Association.

The active contribution includes work by teams of employees – repairs in the club buildings, environmental development, donations of computers, domestic appliances, games and books, as well as enrichment activities, hikes, and activities on holidays and vacations.

This year, during which the number of clubs adopted increased gradually to 26, ICL companies donated about NIS 970,000 to clubs directly, compared with NIS 640,000 last year, as well as thousands of volunteer hours donated by employees.

9.2 **Response to various issues**

Another important contribution of ICL, in the amount of of about NIS 750,000 in 2004, is support for "Alut" for the construction of a permanent home for autistic teenagers in Jerusalem. This support was given in cooperation with Israel Corporation and ZIM, for a total of NIS 2.25 million. Another contribution in 2004 – of about half a million NIS, was to Soroka Hospital in Be'er Sheva, which serves the population of Be'er Sheva, among them ICL employees, plants, families and community in which the Group's companies operate. Once a year, the donation collected is used for the construction, development and equipping of one of the hospital's departments. In the summer months, the children of employees assist in various activities and tasks in the hospital, in old age homes and in other community activities, in cooperation with the municipalities.

ICL companies have exchanged the holiday gifts (New Year and Passover) traditionally distributed to colleagues and others, with food parcels and gift vouchers which they donate to needy families in the Negev, and distribute parcels, in cooperation with the "Haim" society, to children with cancer who are hospitalized or in the daily care of the Soroka Medical Center at Be'er Sheva.

ICL has also contributed both money and money equivalents to various support organizations operating in the south of the country. Together with the Soldiers' Committee, ICL Group adopts army units and bases, where they hold joint activities for the well-being of soldiers.

ICL was a driving force behind the opening of a branch of "Inbal" in Be'er Sheva. Inbal is a support center for children who are victims of sexual abuse. ICL has undertaken to donate $50,000 per year for five years, to the financing of Inbal's activities. ICL also initiated the opening of a branch of "Yated" in the south, an organization for children with Down's syndrome, and undertook to donate $20,000 per year for another three years for its operation. Employees and managers of ICL companies are actively involved in public bodies in the community at Yeruham, Be'er Sheva, Dimona and Arad. ICL pensioners are also involved in Youth Club activities, Yated and other voluntary bodies.

10. EVENTS DURING THE PERIOD

10.1 On January 1, 2004 Mr. Yehoshau (Shuki) Gold (who was CEO of ICL Fertilizers up to that date), was appointed as Executive Vice-President of ICL. On that date, Mr. Asher Greenbaum (who had been CEO of ICL Industrial Products) was appointed CEO of ICL Fertilizers, Mr. Yossef (Yossi) Shachar (who was CEO of ICL Performance Products) was appointed CEO of the ICL Industrial Products segment, and Mr. Yitzhak Peretz (who was a VP at ICL) was appointed CEO of the ICL Performance Products segment. On March 28, 2004 the Board of Directors of the Company resolved that Mr. Asher Greenbaum and Mr. Yossef Shachar will be employed directly by ICL. The Board also approved the appointment of Mr. Dan Messika as CEO of ICL Metallurgy, replacing Mr. Doron Goder. Mr. Messika is employed directly by ICL, starting from June 1, 2004.

10.2 On February 23, 2004 ICL entered into an agreement for the sale of shares in the subsidiary Negev Industrial Minerals Ltd. (and a related sister company) in consideration of cash and payment of liabilities in the total amount of approximately $19.4 million. The transaction was closed on June 6, 2004.

10.3 On March 8, 2004, following sanctions by employees as part of a labor disputer at one of the business units in the ICL fertilizers segment, which included prevention of the entry of raw materials and the shipping of finished products, production at the sites of the business units in Mishor Rotem and Zafir was halted. On March 18, 2004 the plants resumed operation.

10.4 On April 29, 2004 the Company distributed a dividend on approximately $25,7 million, On September 19, 2004 the Company distributed a dividend of approximately $64.2 million, and on March 28, 2005 the Company decided on the distribution of a dividend of approximately $35.8 million to be distributed on April 20th, 2005.

10.5 A general meeting of the shareholders of the Company on May 25, 2004 resolved, among other decision, to re-appoint Messrs. Yossi Rosen, Idan Ofer, Haim Erez, Moshe Widman, Muhamad Dahla, Noga Yatziv, Avishar Paz and Amnon Sadeh as directors in the Company, and to leave the appointment of the outside directors as is. The meeting also resolved to appoint PWC Kesselman and Kesselman as the auditing CPAs of ICL for 2004.

10.6 On October 24, 2004 a subsidiary of the Company from the ICL Fertilizers segment received approval in principle from the Minister of National Infrastructures for grant of a license to produce electricity by means of power and heat facilities (co-generation). The facility which is the subject of the approval will have a production capacity of between 400 and 700 megawatts. Grant of a license for a private electricity producer is contingent upon the erection of a power station and compliance with additional milestones, which have not yet been met.

10.7 At a special general meeting on December 13, 2004, it was resolved to replace Section 2 – Objectives of the Memorandum of Association of the Company.

10.8 On December 13, 2004, a subsidiary of the ICL Group completed the sale of a company in the Cayman Islands - which had held indirectly shares in Sociedad Quimica Minera (SQM),. The capital gain created for the company from the transaction is approximately $43.6 million.

11. EVENTS AFTER THE BALANCE SHEET DATE

11.1 On February 6, 2005, Mr. Idan Ofer ceased to serve as a director of the Company, and on the same date the Board of Directors of ICL appointed Mr. Gilad Shavit as a director of the Company.

11.2 On March 28th, 2005, the company decided on an incentive plan for senior executives – see Section 5.8.2 of the " Description of the Company's Business".

The Board of Directors of ICL wishes to thank ICL's management, as well as the employees and managers of the various companies, for their dedicated and skilled contribution to the development of ICL and the achievement of its business results.

March 28, 2005

--	--
Akiva Mozes	Yossi Rosen
CEO	Chairman of the Board