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

Directors Report on the State of the Company's Affairs for the period ended 30 June, 2004

1. Description of the Company and its Business Environment

1.1 Description of the ICL Group

Israel Chemicals[1] (**"ICL Group**" or "**ICL**") is a multinational group operating mainly in fertilizers and chemicals in four segments – fertilizers, industrial products, performance products and metallurgy.

ICL's operations are based mainly on the natural resources in the Dead Sea – potash, bromine, magnesium and salt, and in the Negev Desert – phosphates, all under concessions from the State of Israel, as well as on potash and salt mines in England and Spain under leases and licenses from the competent authorities in those countries. ICL mines these natural resources, sells them worldwide, and also develops, manufactures and markets downstream products based mainly on those raw materials.

ICL has manufacturing facilities all over the world – in Israel, Holland, Germany, France, Spain, China, England, the U.S.A., Turkey, Belgium, Brazil, Austria, Australia, Cyprus and Argentina. In addition to the manufacturing companies, ICL maintains an array of marketing offices, terminals, storage facilities and distribution centers around the world.

The overseas operations of ICL are mainly the manufacture of products which integrate with or are based on the operations of ICL in Israel or are closely related to them. About 45% of production operations and more than 90% of sales take place outside Israel. ICL is not dependent on any customer, supplier or source of raw materials which are not included in the concessions granted to the ICL Group.

ICL operates in four main segments of operation which are grouped according to managerial-functional considerations,[2] 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.

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[1] In this document, "Israel Chemicals Group" means Israel Chemicals Ltd. and its consolidated companies.
[2] Management by segment is group-wide, on a managerial-functional basis, even where the managerial division does not tally with the legal ownership.

ICL and ICL's companies have been declared a monopoly in certain areas.

Israel Corporation Ltd. ("**Israel Corporation**") holds approximately 51.5% of the capital and voting rights[3] (about 49.2% at full dilution[4]) of the share capital of Israel Chemicals Ltd. ("**the Company**"). The Ofer Group is the controlling shareholder in Israel Corporation.

1.2 <u>The Business Environment and Profitability of ICL</u>

ICL is a multinational group. Its business results are influenced by global economic trends, by changes in trading and financing conditions, and by fluctuations in exchange rates.

The demand for ICL's products is influenced, inter alia, by the demand for basic agricultural products and by the economic situation in developed countries.

Most of ICL's sales are made in foreign currency, mainly U.S. dollars and the euro, while about one quarter of costs are in shekels. Consequently, devaluation or appreciation in the average dollar-shekel exchange rate affects profitability. Changes in the exchange rates of the dollar against European currencies and the Japanese yen also affect operating results, financing expenses and the tax expense item.

During the Report Period, most of ICL's target markets were showing signs of recovery, due mainly to improved economic growth in North America and Asia. ICL also benefited from increased demand in the fertilizers and industrial products segments, and from the appreciation in euro, sterling and yen exchange rates against the dollar compared with last year. Conversely, the Company continued to contend with high tariffs for bulk ocean freight, the appreciation of the NIS against the dollar and the high prices of some raw materials (notably sulfur), as well as the sharp rise in the prices of oil products.

ICL is taking steps to adjust its marketing and production policy to the circumstances in world markets by focusing on improving its cash flow, diversifying its sources of financing and continuing with its savings and efficiency measures.

1.3 This Directors Report accompanies the interim financial statements for the period ended June 30, 2004, and assumes that the reader has those financial statements at his disposal. The Directors Report relates briefly to that period, and assumes that the reader is familiar with the Directors Report and financial statements for the year 2003.

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[3] Out of ICL's shares, 384,011 ordinary shares held a wholly-owned and controlled subsidiary were purchased after the Companies Law, 5759-1999 took effect, and do not grant voting rights. See the Periodic Report for further details.

[4] Assuming that all the debentures and all the options for shares of the Company are converted to shares.

2. Results of Operations

2.1 Principal Financial Results

Below is a summary of the results of operations in the period under review as compared with the same period last year, in millions of dollars.

	1-6/2004		1-6/2003		4-6/2004		4-6/2003		2003	
	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales
Sales	1,290.6	100.0	1,120.5	100.0	671.5	100.0	561.8	100.0	2,270.9	100.0
Gross profit	432.3	33.5	371.0	33.1	231.9	34.5	200.8	35.7	712.8	31.4
Operating income	151.4	11.7	124.2	11.1	90.3	13.5	73.7	13.1	210.7	9.3
Pre-tax income	133.3	10.3	95.5	8.5	80.9	12.1	57.5	10.2	127.0	5.6
Net income	106.9	8.3	60.3	5.4	74.6	11.1	34.2	6.1	103.1	4.5
Cash flow from current operations	206.9		289.6		114.9		93.1		453.2	
Investments in property, plant and equipment less grants	48.1		68.0		20.0		31.2		125.4	

2.2 Results of Operations for the Period January – June 2004

Sales

Sales of ICL Group in the report period amounted to approximately $1,290.6 million, compared with $1,120.5million last year, an increase of approximately 15.2%.

The increase in the Group's sales reflects an increase in turnover in all the segments of the Group's operations, both as a result of increased quantities sold and as a result of price rises. 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 areas:

Sales CIF	1-6/2004		1-6/2003		2003	
	$ millions	**%**	**$ millions**	**%**	**$ millions**	**%**
Israel	100.2	7.8	79.8	7.1	168.2	7.4
North America	145.1	11.2	118.8	10.6	231.1	10.2
South America	146.6	11.4	109.1	9.7	273.5	12.0
Europe	619.6	48.0	575.3	51.3	1,105.1	48.7
Asia	225.0	17.4	197.6	17.6	402.3	17.7
Rest of the world	54.1	4.2	39.9	3.7	90.8	4.0
Total	1,290.6	100.0	1,120.5	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 with a increase in the proportion of sales to North America, mainly bromine products, and in South America attributable to the increase in sales of potash and fertilizers in Brazil.

Gross Profit

Gross profit amounted to approximately $432.3 million, an increase of 16.5% compared with last year. The gross profit margin out of sales turnover reached 33.5%, compared with 33.1% 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. Conversely, the increase was adversely affected by a rise in the prices of raw materials, including high costs for sulfur (a principal raw material in the manufacture of phosphoric acid and phosphate fertilizers), an increase in energy prices, a decrease in the production of some phosphate products and the appreciation of the shekel against the dollar.

Sales and Marketing Expenses

Expenses amounted to approximately $213.8 million, an increase of about 15.2% 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 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 the same period last year, and due to the effects of appreciation of the shekel and the euro against the dollar on expenses in dollar terms.

General and Administrative Expenses

These expenses totaled $52.3 million, an increase of about 13.6% compared with the same period last year. The increase derives from the effects of the appreciation of the shekel and euro on expenses in dollar terms and from one-time expenses for external consultants and other costs, including for reorganization activities.

Research and Development Expenses

R&D expenses (net of grants from the Chief Scientist) amounted to approximately $14.8 million, a decrease of about $0.4 million compared with last year.

Operating income

Operating income increased by some 21.8% compared with last year, reaching $151.4 million. The percentage of operating income is 11.7%, compared with 11.1% last year.

Financing Expenses

Financing expenses amounted to about $18.6 million, compared with $19.2 million last year, a decrease of about $0.6 million. The decrease in financing expenses compared with last year derives mainly from a decrease of about $150 million in the net financial liabilities[5], which was partially offset by a rise of 0.4% in the average dollar interest rate for the period.

Other Income and Expenses, Net

Other income offset by other expenses amounted to about $0.5 million for the period, and include primarily a capital gain of $4.6 million from the sale of Negev Industrial Minerals Ltd., set off by a $5.3 million write-off of production facilities in the Industrial Products segment.

[5] Net financial liabilities: Loans (debentures) and long- and short-term credit from banks and other credit providers, net of cash and long- and short-term deposits in financial and government institutions.

Tax expenses

These expenses amounted to approximately $27.6 million, compared with $35.0 million last year. The tax rate on pre-tax income fell from 36.6% to about 20.7%.

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 passing of this law and its effects on the tax rates used to calculate the reserve, the Company's tax expenses decreased by about $18 million in the period. Tax expenses in the period also include adjustment of tax losses expected to be utilized in the coming years.

Net Income

Net income amounted to $106.9 million, compared with $60.3 million last year. The net income of ICL, excluding the one-time effect on tax expenses, amounted to $88.9 million, an increase of about 47%.

2.3 **Results of operations for the period April-June 2004**

Sales

Sales of ICL Group in the quarter amounted to approximately $671.5 million, compared with $561.8 million last year, an increase of about 19.5%.

The increase in Group sales reflects an increase in operation turnovers of all the segments of operation of the Group, particularly in the Fertilizers segment as a result of price rises and higher quantities sold, and in the Industrial Products segment, in which there was an increase in quantities as well as increases in the prices of some products. The appreciation of the euro against the dollar also contributed to the increase in income from sales in Europe.

The table below shows the geographical breakdown of sales in the second quarter of 2003:

Sales CIF	4-6/2004		4-6/2003	
	$ millions	%	$ millions	%
Israel	52.7	7.9	42.5	7.5
North America	78.8	11.7	55.4	9.9
South America	101.4	15.1	84.6	15.1
Europe	287.7	42.9	262.2	46.7
Asia	128.6	19.1	98.1	17.5
Rest of the world	22.3	3.3	19.0	3.3
Total	671.5	100.0	561.8	100.0

The breakdown of sales in the quarter indicates a considerable increase in the proportional part of sales in North America (mainly Industrial products) and in Asia, where sales of potash and bromine products increased and prices rose.

Gross Profit

Gross profit amounted to approximately $231.9 million, an increase of 15.5% compared with last year. The gross profit margin decreased from 35.7% to about 34.5% of total turnover.

The increase in income and the ongoing efficiency measures contributed to gross profit, and the slight devaluation of the shekel against the dollar contributed to a decrease in shekel costs in dollar terms. Conversely, 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), together with rising energy prices and extraordinary expenses, had an adverse effect on profit.

Sales and Marketing Expenses

These expenses amounted to approximately $107.4 million, an increase of about 12.8% compared with last year. The increase in expenses derived mainly from greater quantities sold and the increased costs of bulk marine transportation costs for the products of the Fertilizers segment due to a global rise in tariffs compared with last year. Expenses also increased due to the effects of appreciation of the euro against the dollar on results in dollar terms.

General and Administration Expenses

These expense amounted to approximately $27.2 million, an increase of about 13.5% compared with last year. The increase derives mainly from the effects of the appreciation of the euro on results in dollar terms and from a significant increase in one-time expenses for external consultants.

Research and Development Expenses

R&D expenses (net of grants) amounted to approximately $7.0 million, a decrease of about $0.9 million compared with last year.

Operating Income

Operating income increased by about 22.6% compared with last year, and reached approximately $90.3 million. Operating income out of sales amounted to about 13.5% compared with 13.1% last year.

Financing Expenses

Financing expenses amounted to approximately $10.0 million, compared with about $12.6 million last year, a decrease of about $2.6 million.

The decrease in financing expenses compared with last year derives mainly from the decline of about $127 million in the net financial liabilities, which was partially offset by the increase in the average dollar interest rate for the quarter of approximately 0.4%.

Other Income and Expenses

Other income offset by other expenses amounted to approximately $0.5 million, and includes mainly a capital gain of $4.6 million from the sale of Negev Industrial Minerals Ltd., offset by a $5.3 million write-off of a production facility in the Industrial Products segment.

Net Profit

Net profit amounts to approximately $74.6 million, compared with a profit of $34.2 million in the same period last year. The net income of ICL, excluding the one-time effect on tax expenses, amounted to approximately $56.6 million, an increase of about 65%.

3. Segments of Operation

The segments of operation of ICL are presented below in the segments described in Section 1.1 above.

Sales CIF by segment	**1-6/2004**		**1-6/2003**		**4-6/2004**		**4-6/2003**	
	$ millions	**% of total sales**	**$ millions**	**% of total sales**	**$ millions**	**% of total sales**	**$ millions**	**% of total sales**
ICL Fertilizers	697.0	50.2	606.5	50.3	363.0	50.1	297.4	48.8
ICL Industrial Products*	322.8	23.3	277.0	23.0	173.2	23.9	138.7	22.8
ICL Performance Products	283.8	20.5	251.3	20.8	144.7	20.0	134.3	22.0
ICL Metallurgy	43.6	3.1	39.5	3.3	22.4	3.1	19.8	3.3
Others and setoffs	(56.6)		(53.8)		(31.8)		(28.4)	
Total	1,290.6		1,120.5		671.5		561.8	

* 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	**1-6/2004**		**1-6/2003**		**4-6/2004**		**4-6/2003**	
	$ millions	**% of total sales**	**$ millions**	**% of total sales**	**$ millions**	**% of total sales**	**$ millions**	**% of total sales**
ICL Fertilizers	104.4	15.0	95.2	15.7	58.8	16.2	56.9	19.1
ICL Industrial Products*	22.6	7.0	12.8	4.6	14.4	8.3	7.0	5.1
ICL Performance Products	24.8	8.7	19.2	7.6	17.0	11.7	9.6	7.2
ICL Metallurgy	(3.2)	(7.4)	(6.4)	(16.3)	(1.5)	(6.5)	(2.6)	(13.2)
Others and setoffs	2.8		3.4		(1.6)		2.8	
Total	151.4	11.7	124.2	11.1	90.3	13.5	73.7	13.1

* Including agricultural products.

Remark: The profit percentage is out of sales before setoff of inter-segment sales

3.1 ICL Fertilizers

Sales

The volume of operations in the segment amounted to approximately $697.0 million, an increase of about 14.9% compared with last year. The increase in sales turnover arises from the positive market conditions for fertilizers, which were reflected in increased demand and price rises, partly attributable to the appreciation of the euro and the pound sterling against the dollar.

Operating income

Operating income in the segment amounted to approximately $104.4 million, an increase of about 9.7% compared with last year. The operating margin on sales was about 15.0%, compared with 15.7% last year. The improved operating income was achieved mainly as a result of the increase in income noted above, and by the improvement in the potash operations. However, the effect of the appreciation of the shekel on shekel expenses of the segment in dollar terms, the one-time effects that harmed the results of fertilizers and phosphates, the rise in some production costs and the rise in the prices of bulk marine transportation compared with last year, all exerted an adverse effect on operating income. The rise in transportation prices also affected the prices of imported raw materials, particularly sulfur. Nevertheless, the Company's logistical advantage over some of its competitors mitigated the effects of the rise in marine transportation prices as compared with these competitors. During the second quarter, Negev Minerals Co. 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 Chemicals division), Iberpotash and CPL.

Potash – Sales Revenue and Income

Millions of dollars	1-6/2004	1-6/2003	4-6/2004	4-6/2003	2003
Income*	440.5	384.7	234.0	191.8	765.4
Operating income	104.9	88.0	59.8	51.9	151.3

* Including sales 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. In the second quarter, selling prices and sales improved considerably. The improvement in operating income, which increased in the report period by about 19.2%, derived primarily from the improvement in selling prices from Israel.

Potash – Production and Sales

Thousands of tons	1-6/2004	1-6/2003	4-6/2004	4-6/2003	2003
Production	2,587	2,590	1,276	1,307	5,139
Sales*	2,615	2,686	1,465	1,353	5,212

* To external customers.

Production in the period was similar to last year, despite a slight decrease in the second quarter.

The decrease in sales in the period is mainly the result of postponement of sales, mainly to India, to the second half of the year. In the second quarter, sales increased considerably, particularly to Brazil and China. The increase in the second quarter is partially attributable to the completion of sales to China which were postponed from the first quarter. Sales to India also resumed in the second quarter, after renewal of the contract embodying a considerable in price.

In the potash production process in Sdom, the carnallite ponds in the Dead Sea produce a raw material – carnalite, which is processed in the production plants to produce potash. In recent years, the production capacity of carnallite in the ponds outstripped the production capacity of the plants. Expansion of the production plants was recently completed so that now, their production capacity exceeds that of the ponds. This will lead to a gradual reduction of the carnallite surpluses in the ponds. In the future, the production of potash in the Sdom plant in the volumes that will be attained after the expansion, will give rise to a need to expand the production capacity of the carnallite ponds.

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 the reporting period, a number of fissures were seen in the dike, near its northern edge. 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 specialty fertilizers), fertilizer-grade phosphoric acid ("green acid") used as a raw material for the production and downstream products, as well as other products.

Fertilizers and Phosphates – Sales Revenue and Income

Millions of dollars	1-6/2004	1-6/2003	4-6/2004	4-6/2003	2003
Income*	267.7	232.8	132.2	111.1	497.0
Operating income	(0.6)	6.8	(0.9)	5.7	3.1

* Including sales revenue from segment sales.

The increase in sales revenue (by about 15.0% compared with the same period last year and by about 19.0% for the second quarter) derives mainly from a rise in the prices of most products due to improvement in the phosphate fertilizer market, partly as a result of the effects of appreciation of the euro against the dollar. In contrast, sales of phosphate rock decreased, as did sales of green acid to outside customers, due mainly to the increase in the uses of this acid within the ICL Group.

Despite the increase in income as noted above and the improvement in the current operation of ICL Fertilizers' production sites, operating income during the period decreased as a result of the decline in production during the first quarter, which was caused, inter alia, by the strike at Zafir and Rotem, by damage to the sulfuric acid production plant and by a breakdown in the electricity generating turbine, which halted production at the Mishor Rotem site for several days, and was influenced by the rise in the prices of sulfur, marine transportation and other costs, and by the rise in shekel inputs as a result of the appreciation of the shekel exchange rate against the dollar, compared with the same period last year. In addition, the closure of one of the Company's production sites as part of the Company's policy to match phosphate production to uses, also adversely affected the operating income.

Fertilizers and Phosphates – Production and Sales

Thousands of tons	1-6/2004	1-6/2003	4-6/2004	4-6/2003	2003
Phosphate rock					
Production	1,573	1,949	843	883	3,708
Sales*	288	357	153	187	704
Fertilizers					
Production	826	814	439	418	1,638
Sales*	854	837	396	384	1,676

* To external customers.

Phosphate rock is produced according to demand, both for internal uses and for sales, while maintaining suitable stock levels. The decrease in production compared with last year was due to closing down of one of the Company's production sites from the beginning of the year as part of this policy (so as to improve cash flow).

The decrease in rock sales in the period was due in part 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 in the second quarter, compensating for the decrease in the first quarter due to the production shutdown. Sales were slightly higher than last year, with most sales being to Western Europe and Brazil.

ICL Fertilizers recently contracted in an agreement for the design and construction of a plant at the ICL Fertilizers site in Mishor Rotem for the production of technical grade mono-ammonium phosphate (MAP), mainly for use as a soluble fertilizer.

3.2 <u>ICL Industrial Products</u>

<u>Sales</u>

Sales in this segment in the report period amounted to approximately $322.8 million, an increase of about 16.5% compared with last year. The increase in sales derives mainly from increased sales quantities in most areas of operation, except for a decrease in biocides for water treatment (in the first quarter). This was due mainly to the recovery of target markets for the segment's products. In addition, the prices of some products rose as a result of the strengthening euro and other currencies against the dollar.

Announcements of a rise in the selling prices of bromine and bromine compounds in recent months has halted the downward trend (in local currencies), and in the second quarter there was a rise in the prices of some products.

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, particularly in the second quarter.

Sales volumes of industrial bromine products increased, particularly elementary bromine, which was accompanied by a rise in price, and clear brines for the oil and gas industries, 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 sharply, due in part to customer requests for early sales of methyl bromide, and additional sales to the U.S.A.. In addition, the selling prices of methyl bromide rose.

In biocides for water treatment, sales volumes increased slightly in the period as a result of increased sales in the second quarter. However, increased import of competing products, mainly from the Far East, continued, causing a decrease in prices.

In December 2003 an continuation agreement was signed for a term of six years with Hercules Co. for the distribution of fuzzicide for the paper industry (a patented technology of ammonium bromide for water treatment). Penetration of this product continued in the period, mainly in the U.S.A.

In magnesia products for the refractory industry and other uses, income increased following increased demand for some of the products, which enabled a price rise (partly due to the effects of appreciation of the euro).

Sales of chlorine-based products from the Dead Sea increased, mainly in the first quarter of the year.

Montreal Protocol

Under the accord known as the "Montreal Protocol", to which Israel is a signatory (and which was adopted in the Reporting Period as part of Israel's local legislation), the manufacture and consumption of methyl bromide for soil fumigation in developed countries was to be gradually reduced to zero by the year 2005. Recently, discussions have been in progress among the signatory countries concerning the possibility of modifying the rate and timing of the reduction in manufacture and consumption of methyl bromide in developing countries. At the end of March 2004 the Protocol was discussed by the parties and resolutions were adopted for the approval of quantities of production and consumption for the year 2005, for soil fumigation in developing countries, for uses defined as "critical". These quantities are similar to those approved for 2003 and 2004. During 2004, the "critical uses" will be discussed in relation to 2006 and 2007. The volume of sales in the report period to which the ban will apply in 2006 if no changes are made to the rate of reduction of production for critical uses in 2006 and 2007, is about $17.9 million, with an operating income of about $5.6 million. Sales of methyl bromide for soil fumigation to "developing countries" are expected to continue until 2015.

Methyl bromide has other uses apart from soil fumigation, such as pre-shipment treatment or quarantine, as a raw material or intermediate material for the manufacture of another material or product (feedstock), and is also used in recycling and re-use. These uses are not within the purview of the Montreal Protocol.

ICL's strategy is to remain in the soil fumigation field after the ban on use of methyl bromide for that purpose. Accordingly, in recent years, efforts have been invested in the development, licensing and marketing of new applications and alternatives to methyl bromide in this important market.

Total sales of agricultural products in the Industrial Products segment in the report period, for uses and customers to which, as far as is known today, the production and marketing ban will also not apply in 2006, are about $20.6 million, with an operating income in respect of those sales amounting to about $5.6 million.

Operating profit

Operating income in the segment was approximately $22.6 million, an increase of about 76.3% compared with last year.

The increase stemmed mainly from increased sales volumes and higher prices for some of the segment’s products and from continued efficiency measures, and was partially offset by the increase in the prices of some of the segment’s raw materials, the increase in selling, marketing, general and administrative expenses, some of which were the result of increased quantities sold and as a result of the appreciation of the NIS in the period (compared with last year).

3.3 ICL Performance Products

Sales

Sales in this segment amounted to approximately $283.8 million, an increase of about 12.9% compared with last year. Most of the increase in sales turnover, in dollar terms, derived from the strengthening of the euro against the dollar compared with the same period last year. A increase was also recorded in sales of chemicals for water and paper, food additives and white acid (food-grade and technical-grade phosphoric acid). The ongoing economic slowdown in Europe, the surplus production capacity in some of the segment's markets and intensifying competition with companies with dollar expenses, adversely affected the sales of the segment in some of its areas of operations. Nevertheless, an improvement in operations in the second quarter is noted compared with the first quarter of the year.

Operating income

Operating income in the segment amounted to $24.8 million, about 28.9% higher than last year. The margin was about 8.7%, compared with 7.6% last year.

The above-mentioned increase in sales, along with operational improvements in some of the segments areas of operations (especially white acid), contributed to the improvement in profitability. Conversely, the appreciation of the euro against the dollar also 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 an increase in the cost of some of the raw materials and general and administrative expenses, which were moderated by efficiency and savings measures in the segment.

3.4 ICL Metallurgy

Sales

Sales in this segment amounted to approximately $43.6 million, an increase of about 10.3% compared with last year.

The increase in sales derives mainly from a rise in selling price of the various types of magnesium, due partly to the strengthening euro against the dollar. The quantity sold in the period was similar to the same period last year along with a rise in the share of magnesium alloys in the sales mix. The anti-dumping claim filed in the U.S.A. against manufacturers of magnesium from China and Russia, the rise in the prices of the Chinese product following an increase in the prices of the main production input prices in China, and difficulty in supplying magnesium from China, are the principal factors in the nascent rise in the prices of magnesium in global markets.

Operating loss

The operating loss in the segment amounted to approximately $3.2 million, compared with $6.4 million in the same period last year..

The decrease in the loss compared with last year is due to the rise in prices noted above, which also affected the reduction of the provision required for decrease in value of the stocks at their market price, ongoing efficiency measures and a decrease in expenses, which were offset by a rise in some production inputs.

4. The financial position of the Group

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 first half of 2004, the trend of decreasing net financial liabilities of the Group continued, and at the end of the period those liabilities amounted to $755.0 million after a decrease of $134.0 million during the period that was achieved by directing free cash flow to this purpose.

The Group's sources of financing are primarily short-term and long-term loans from Israeli and international banks. During the period, a €140 million syndicated loan was signed (about $175 million) with eight international banks for a period of 3.5 years (bullet) at LIBOR + 1.05% interest.

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 June 30, 2004, about $15.7 million of these debentures had been converted to shares of ICL, and as at the date of publication of this report, another $20 million of the debentures had been converted. At the date of the publication of this report, the balance of the debentures not yet converted was approximately $38.5 million. The management of the Company believes that it can reasonably be assumed that the balance of the debentures will also be converted, and accordingly, the balance of convertible debentures is stated as a quasi-capital item.

The Company is continuing to issue short-term commercial papers, and as at the report date the outstanding balance held by the public amounted to approximately $24 million.

At the end of 2002 the Group entered into a securitization transaction for the sale of customer debt. The maximum financial resource available to the Group in this transaction is $250 million. The actual financial resources are the result of the volume of customer debt at any time, and they varied during the period between $230 million and $250 million. On July 26, 2004 the Group contracted with Rabobank International in a similar transaction ("the New Securitization Transaction").

Concurrently, the group reached agreement with Bank of America to end the securitization transaction it had organized ("the Prior Securitization Transaction").

The terms of the New Securitization Transaction are similar to those of the Prior Securitization Transaction, with the following principal changes: (1) the cost is lower than in the Prior Securitization Transaction; (2) the cash received in the transaction in respect of sale of customer debt in the New Securitization Transaction will be up to $220 million (rather than $250 million in the Prior Securitization Transaction).

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

	1-6/2004	**1-6/2003**
Cash flows from current operations	207	290
Of which: net securitization	21	113
Cash flows from current operations eliminating the effects of securitization	186	177
Investments and acquisitions, net	(27)	(69)
Payment of dividend	(25)	(26)
Change in financial liabilities – net	134	185

5. Investments

In the report period, investments in property, plant and equipment net of investment grants amounted to approximately $48.1 million, compared with investments in property, plant and equipment less grants amounting to $68.0 million in the same period last year.

6. Human Resources

The total number of employees at ICL Group as at June 30, 2004 is 8,374, compared with 8,451 on December 31, 2003. The decrease is mainly the result of ongoing efficiency measures and cutting Company costs.

Under a collective agreement signed in 1978 with the employees of the subsidiary Dead Sea Works ("DSW") of the ICL Fertilizers segment, workers at the Sdom plant take early retirement at age 58 provided they have worked there for 25 years, or at age 60 if they have worked there for 20 years. On September 16, 2001, a decision was handed down by the Regional Labor Court in Be'er Sheva in the claim of a DSW employee, which determined that the early retirement clause in the above collective agreement should be construed as granting Sdom workers a right to retire, rather than imposing upon them an obligation to retire. On March 18, 2004 the National Court allowed part of the appeal of DSW and vacated the determination of the Regional Court that the Sdom workers have the right to early retirement rather than an obligation. The decision declared the existing early retirement arrangement void, but also that the decision would be implemented only six months thence, to give the parties time to devise a new and detailed arrangement for the early retirement of the Sdom workers, on a basis that will meet the requirements of the law and of the ruling.

7. Exposure to Market Risks and their Management

No material change occurred during the report period, compared with the Directors' Report for 2003.

8. Events during the period

8.1 Fertilizers and Chemicals Ltd. (herein after: "Fertilizers") of ICL Fertilizers segment is situated near Haifa Bay, Israel. For many years, wastewater from its plant and from municipalities and other plants has been diverted to the Kishon River near Haifa. Since the 1980's, a treatment facility has been in operation that reduces the concentration of certain polluting materials from wastewater discharges by these plants.

In 2001, a class action was filed against Fertilizers and three other third-party entities alleging that the defendants polluted the Kishon River. The plaintiffs requested the court to order the defendants to cease the pollution of the Kishon River and to restore the Kishon River to the state it was in prior to the discharge of the waste. The State of Israel and other third-party defendants were joined in this claim.

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

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

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

8.2 In February 2004, the Company learned that the Prosecutor of Environmental Crimes of Catalonia, Spain, has instituted a criminal proceeding in which he filed a report in the Magistrate's Court in Messerat, Spain, against former and current managers of a company from the ICL Fertilizers segment that operates a mine in Spain, claiming that the managers had contravened local legislation and caused contamination of the groundwater due to the seeping of salt dumped from the mining sites over a period of many years, starting before the company was taken over by ICL Fertilizers. The Court was requested to issue an order forbidding the continued disposal of salt dumpings. As at the date of this report, said order has not been given. ICL Fertilizers estimates, relying on its legal advisers, that at this stage, the probability of such an order being given is low. Should such an order be granted and should it not be revoked in the legal proceedings, it will have a material effect on mining operations at that site.

8.3 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 will also be employed directly by ICL, starting from June 1, 2004.

8.4 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 $19.6 million. The transaction was closed on June 6, 2004.

8.5 On April 14, 2004 the Company distributed a dividend of approximately $25.7 million. On August 15, 2004 the Board of directors of the Company decided to distribute a dividend of $63.9 million. The dividend will be distributed on September 19, 2004.

8.6 On May 17, 2004 a subsidiary from the ICL Industrial Products segment that operates the Ramat Hovav site received the terms of its business license from the Ramat Hovav Industrial Council and the Ministry of the Environment, in which the subsidiary is required to erect facilities for treatment of the effluents from its plant in Ramat Hovav. The business license defines the quality required for effluents, and states that the facility should be erected by the subsidiary in stages by December 31, 2007. The subsidiary is studying the terms of the license and is in contact with the Ministry and the Council in an attempt to modify the requirements and consider alternative solutions. If the Ministry and the Council prove inflexible as to the terms set out in the license and/or if the terms cannot be modified in legal proceedings, the operations of the Ramat Hovav plant will suffer materially adverse effect and/or investments will be required, the extent of which the subsidiary is unable to estimate at this stage.

In July 2004 an epidemiological survey commissioned by the Ministry of Health and prepared by Ben Gurion University was published, relating to the incidence of sickness and mortality from various diseases in town and villages within a 20-kilometer radius of the Ramat Hovav site (a chemical industry area containing 17 plants, one of which is ICL's bromine compounds plant) compared with towns and villages outside that radius. According to the survey, in most of the results no link was found between sickness and mortality indices and residence near the site and residence downwind from the prevailing wind at the site; in some cases, the opposite was found. For some of the diseases covered by the survey, sickness or mortality near the site was higher than in the control group, while for others, the sickness and mortality were lower than in the control group. In cases where sickness or mortality near Ramat Hovav was higher, the survey notes congenital defects and childhood mortality in the Bedouin population, upper respiratory tract diseases in kibbutzim and cancer among women living in Omer. The survey states that other factors in the tested population that could be relevant to sickness or mortality, were not investigated, and therefore no causal connection can be established between the proximity to Ramat Hovav and the sickness or mortality. The survey also did not look at the concentrations of chemicals in the air in any of the locations surveyed, and therefore it cannot pinpoint any finding, even ostensible, for any one specific plant in the Ramat Hovav compound.

After publication of the survey, the Supreme Court sitting as the High Court of Justice on July 26, 2004 to hear a petition filed by the Ramat Hovav Local Authority against the State authorities, ordered that a "Plan of action – whether short-term or long-term, whether for emergency action or other action", must be presented to it within 90 days, and all " following emissions from the Ramat Hovav site and their implications for the health of the population living in the area". According to various news items, the Ministry of the Environment presented a comprehensive plan to the Government for addressing environmental problems in the Ramat Hovav area, at a cost of about $200 million. As at the date of this report, no plan has been presented to the Company, and in any case there is no way of knowing how such plans might affect the Company.

8.7 As a result of labor sanctions in the Israeli ports which began in the second quarter and developed into a strike in the third quarter, there have been delays and disruptions in the import of raw materials to Israel and in the export of finished products from Israel. As of the date of the publication of the report, the management of the company cannot quantify the effects of these sanctions on the Company, but the Company estimates that they will have some impact on the results in the third quarter. As of the date of this report, the ports have returned to normal operations.

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.

August 15, 2004

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Akiva Mozes CEO	Yossi Rosen Chairman of the Board