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 31 March, 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 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 in Israel and other countries

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.

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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.

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

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

Israel Corporation Ltd. ("**Israel Corporation**") holds approximately 52.4% of the capital and voting rights[1] (about 49.2% at full dilution[2]) of the share capital of Israel Chemicals Ltd. ("**the Company**"). The Ofer Group is the controlling shareholder in Israel Corporation.

1.2 The Business Environment and Profitability of ICL

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, some of ICL's target markets were showing signs of recovery, due mainly to improved economic growth in North America and Asia. ICL benefited from increased demand in the fertilizers segment, 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 bulk marine transportation prices, appreciation of the shekel against the dollar and the high prices of some raw materials (notably sulfur).

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 financial statements for the period ended March 31, 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.

[1] Out of ICL's shares, 4,696,536 ordinary shares are held a wholly-owned and controlled subsidiary were purchased after the Companies Law, 5759-1999 took effect, and accordingly, they do not grant voting rights. See the Periodic Report for further details.

[2] Assuming that all the debentures and all the options for shares of the Company are converted to shares, and assuming also that each of the options issued in 1999 will be converted into one ordinary 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:

$	1-3/2004		1-3/2003		2003	
	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales
Sales	619.1	100.0	558.6	100.0	2,270.9	100.0
Gross profit	200.4	32.4	170.2	30.5	712.8	31.4
Operating income	61.0	9.9	50.6	9.1	210.7	9.3
Pre-tax income (loss)	52.4	8.5	38.0	6.8	127.0	5.6
Net income before extraordinary operations					119.9	5.3
Net income	32.3	5.2	26.1	4.7	103.1	4.5
Cash flow from current operations	91.9		197.3		453.2	
Investments in property, plant and equipment less grants	28.1		36.8		125.4	

2.2 Results of Operations for the Period January – March 2003

Sales

Sales of ICL Group in the report period amounted to approximately $619.1 million, compared with $558.6 million last year, an increase of approximately 10.8%.

The increase in the Group's sales reflects an increase in turnover in the Fertilizers segment, mainly as a result of a rise in the prices of potash and fertilizers, as well as increased quantities sold in the Industrial Products segment. 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	1-3/2004		1-3/2003	
	$millions	%	$millions	%
Israel	48.0	7.8	37.3	6.7
North America	66.7	10.8	63.4	11.4
South America	46.3	7.5	24.5	4.4
Europe	335.2	54.1	313.1	56.0
Asia	90.1	14.6	99.5	17.8
Rest of the world	32.8	5.2	20.8	3.7
Total	619.1	100.0	558.6	100.0

The breakdown of sales in the report period shows an increase in the proportional part of sales in South America, attributable to the increase in pre-season sales of potash and fertilizers in Brazil. In Israel the increase was mainly in fertilizers. The decrease in income from Asia is due mainly to delay in potash shipments to China and India compared with last year.

Gross Profit

Gross profit amounted to approximately $200.4 million, an increase of 17.7% compared with last year. The gross profit margin out of sales turnover reached 32.4% in the quarter, compared with 30.5% in the first quarter of 2003..

The increase in sales as described above, the improved results of operations in the Fertilizers segment in Europe, ongoing efficiency measures and a slight decrease in energy prices compared with the fourth quarter of last year, all contributed to the increase in gross profit. Conversely, profit was adversely affected by a rise in sulfur prices (sulfur being a principal raw material in the manufacture of phosphoric acid and phosphate fertilizers), a decrease in [the production of phosphate products, the fall in profitability of some performance products and the appreciation of the shekel against the dollar.

Sales and Marketing Expenses

Expenses amounted to approximately $106.4 million, an increase of about 17.8% 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 marine 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 expense increased due to the effects of appreciation of the shekel and euro against the dollar on expenses in dollar terms.

General and Administrative Expenses

These expenses totaled $25.1 million, an increase of about 13.7% compared with the same period last year. The increase derives mainly from the effects of the appreciation of the shekel and euro on expenses in dollar terms.

Research and Development Expenses

R&D expenses (net of grants from the Chief Scientist) amounted to approximately $7.8 million, an increase of about $0.6 million compared with last year.

Operating income

Operating income increased by some 20.7% compared with last year, reaching $61.0 million. The percentage of operating income is 9.9%, compared with 9.1% last year.

Financing Expenses

Financing expenses amounted to about $8.6 million, compared with $6.5 million last year, an increase of about $2.1 million. The increase in financing expenses derives mainly from the rise in the dollar value of monetary balances in shekels last year, mainly in income tax receivables due to the appreciation of the shekel-dollar exchange rate in the first quarter of 2003.

Other Income and Expenses, Net

Other expenses offset by other income this year amounted to about $31.0 thousand, as compared with $6.0 million in the same period last year. The expenses last year included primarily $3.4 million for the write-off of production facilities, and a provision of approximately $1.7 million for early retirement of employees.

Tax expenses

These expense amounted to approximately $21.0 million, compared with $12.3 million last year. The tax on pre-tax income rose from 32.3% to about 40.1%. The tax expenses in the quarter include an adjustment of the losses for tax purposes expected to be utilized in the coming years, as well as an adjustment of the tax rates at which the deferred tax reserve is computed based on the tax rates expected to be applicable when the reserve is utilized.

Net Income

Net income amounted to $32.3 million, compared with $26.1 million last year.

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	1-3/2004		1-3/2003		2003	
	$ millions	% of total sales	$ millions	% of total sales	$ millions	% of total sales
ICL Fertilizers	334.0	50.4	309.0	51.7	1,234.2	50.3
ICL Industrial Products*	149.5	22.6	138.3	23.1	560.8	22.9
ICL Performance Products	139.2	21.0	117.0	19.6	516.6	21.1
ICL Metallurgy	21.2	3.2	19.7	3.3	73.8	3.0
Other and setoffs	(24.8)	-	(25.4)	-	(114.5)	-
Total	619.1		558.6		2,270.9	

* 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	1-3/2004		1-3/2003		2003	
	$ millions	% of segment sales	$ millions	% of segment sales	$ millions	% of segment sales
ICL Fertilizers	45.7	13.7	38.4	12.4	155.5	12.6
ICL Industrial Products*	8.2	5.5	5.8	4.2	24.3	4.3
ICL Performance Products	7.8	5.6	9.6	8.2	35.6	6.9
ICL Metallurgy	(1.8)	(8.3)	(3.8)	(19.3)	(11.9)	(16.1)
Other and setoffs	1.1	-	0.6	-	7.1	-
Operating income (consolidated)	61.0	9.9	50.6	9.1	210.7	9.3

* 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 $334.0 million, an increase of about 8.1% 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 against the dollar. Conversely, quantities sold of potash and some phosphate products decreased, although this was partially offset by the rise in prices.

Operating income

Operating income in the segment amounted to approximately $45.7 million, an increase of about 19.0% compared with last year. The margin on sales was about 13.7%, compared with 12.4% last year. The improved operating income and margin were achieved mainly as a result of the increase in income noted above, and by the improvement in the operations of the ICL Fertilizers segment in Europe. However, the effect of the appreciation of the shekel on shekel expenses of the segment in dollar terms, the decrease in production of phosphate fertilizers due to a strike that shut down the Company's facilities in Mishor Rotem and Zafir, 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.

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	1-3/2004	1-3/2003	2003
Sales revenue*	206.6	192.9	765.4
Operating income	46.4	36.1	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, which was offset by smaller quantities of potash sold compared with the first quarter of 2003. The rise in potash prices was greater than the rise in transportation prices. The improvement in operating income, which increased in the report period by about 28.5%, derived primarily from the improvement in the operations of the potash companies in Europe.

Potash – Production and Sales

Thousands of tons	1-3/2004	1-3/20032	2003
Production	1,312	1,283	5,139
Sales*	1,171	1,341	5,212

* To external customers.

The increase of about 2.3% in potash production derives mainly from increased output in Spain.

The decrease in sales by about 170,000 tons is mainly the result of postponement of sales to China, due to the difficulties of the Chinese importers in obtaining ships to carry the product, and the delay in sales to India since the Indian importers have not yet agreed on prices for 2004. (The prices were agreed – and increased – after the end of the quarter.) Conversely, a considerable increase was recorded in sales to Brazil.

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 has outstripped the production capacity of the plants. Expansion of the production plants is now being completed so that now, their production capacity will exceed 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. A number of fissures were recently 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	**1-3/2004**	**1-3/2003**	**2003**
Sales revenue*	135.6	121.7	497.0
Operating income (loss)	(1.5)	1.1	3.1

* Including sales revenue from segment sales.

The increase in sales revenue (about 11.4% compared with the same period last year) 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.

Operating income decreased as a result of the decline in production during the 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, by the closure of one of the Company's production sites as part of the Company's policy to match phosphate production to uses, by the rise in the prices of sulfur and marine transportation, and by the rise in shekel inputs as a result of the appreciation of the shekel exchange rate against the dollar, despite the increase in income from the price rise and the improved current operations.

Fertilizers and Phosphates – Production and Sales

Thousands of tons	1-3/2004	1-3/2003	2003
Phosphate rock			
Rock production	729	1,067	3,708
Sales*	135	148	704
Fertilizers			
Production	387	396	1,638
Sales*	456	453	1,676

* To external customers.

Phosphate rock is produced according to demand, internal uses and 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 as part this policy (so as to improve cash flow), and as a result of the strike at the Rotem site, which brought production to a standstill for several days.

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. Most of the decrease in sales was in Brazil.

Production of fertilizers decreased due to the production shutdown, which was partially compensated by higher production and output during most of the quarter. Sales were similar to last year, with most being to western Europe and Brazil.

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

3.2 ICL Industrial Products

Sales

Sales in this segment in the report period amounted to approximately $149.5 million, an increase of about 8.1% compared with last year. The increase in sales derives mainly from increased sales in most areas of operation, except for a decrease in biocides for water treatment. 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.

The announcement of a rise in the selling prices of bromine and bromine compounds in recent months has halted the downward trend (in local currencies), and towards the end of the report period was reflected in 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 from the electronics market, which led to higher quantities sold.

Sales of most industrial bromine products increased, particularly elementary bromine and clear brines for the oil and gas industries, due to increased demand. Also contributing to the increase were sales to the great Lakes Company, under a multi-year supply agreement signed in September 2003.

Sales of agricultural products increased sharply, due in part to customer requests for early sales of methyl bromide. In addition, the selling prices of methyl bromide rose.

In biocides for water treatment, sales decreased as a result of increased import of competing products, mainly from the Far East.

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 quarter, mainly in the U.S.A.

In magnesia products for the refractory industry and other uses, income increased by 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 as a result of improved sales of magnesium chloride products, used to melt snow during the harsh North American winter.

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 will gradually be reduced to zero by the year 2005. 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 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 $8.1 million, with an operating income of about $1.1 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 $9.1 million, with an operating income in respect of those sales amounting to about $1.6 million.

Operating profit

Operating income in the segment was approximately $8.2 million, an increase of about 41.4% compared with last year.

The increase stemmed mainly from increased sales, and was partially offset by the effects of appreciation of the shekel against the dollar on shekel expenses in dollar terms.

3.3 ICL Performance Products

Sales

Sales in this segment amounted to approximately $139.2 million, an increase of about 19.0% 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 slight increase was also recorded in sales of chemicals for water and paper, food additives and hygiene products. 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, offset the increase in the sales of the segment.

Operating income

Operating income in the segment amounted to $7.8 million, about 18.3% lower than last year. The margin was about 5.6%, compared with 8.2% last year.

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, which harmed production and sales of white acid (food-grade and technical-grade phosphoric acid), and by an increase in the cost of raw materials and other expenses, which were moderated by efficiency and savings measures in the segment.

3.4 ICL Metallurgy

Sales

Sales in this segment amounted to approximately $21.2 million, an increase of about 7.6% compared with last year.

The increase in sales derives mainly from a rise in selling price of the various types of magnesium, mainly due to the strengthening euro against the dollar. The quantity sold in the quarter was similar to the same quarter last year and considerably greater than in the fourth quarter of 2003, 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 alloys 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 $1.8 million, compared with $3.8 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 reduced the write-down necessary to adjust the value of the stocks to their market price, an increase in production quantities, ongoing efficiency measures and a decrease in expenses, which were offset by a rise in shekel inputs in dollar terms due to the appreciation of the shekel against the dollar.

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 quarter of 2004, the trend of decreasing net financial liabilities of the Group continued, and at the end of the period those liabilities amounted to $819.0 million after a decrease of $70.0 million during the quarter 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. In the first quarter, 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. As at December 31, 2003, about $12.9 million of these debentures had been converted to shares of ICL, and as at the date of publication of this report, another $0.7 million of the debentures had been converted. 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 $46 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 quarter between $230 million and $250 million.

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

	1-3/2004	1-3/2003
Cash flows from current operations	92	197
Of which: net securitization	18	126
Cash flow from current operations eliminating the effects of securitization	74	71
Investments and acquisitions, net	(28)	(37)
Change in financial liabilities – net	(61)	(157)

5. Investments

In the report period, investments in property, plant and equipment net of investment grants amounted to approximately $28.1 million, compared with investments in property, plant and equipment less grants amounting to $36.8 million last year.

6. Human Resources

The total number of employees at ICL Group as at March 31, 2004 is 8,407, 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 located on the bank of the Kishon river. Since it was established, for decades, Fertilizers has been discharging sewage into the Kishon river. It should be noted that beside Fertilizers, there are additional principal bodies and several other dozens of factories and local authorities discharging its sewage into the Kishon river.

On 29th of may, 2001 a class action was filed against Fertilizers and 3 other defendants under the Law for the Abatement of Environmental Nuisances (Civil Claims), 1992. The State of Israel and dozens of factories and local authorities were joined as third parties to the claim. The claim alleges that the defendants have been polluting the Kishon river. The claimants request the courts to order to cease the discharge of the sewage into the Kishon river and to restore the river to its state prior to the discharge of the sewage. A petition to strike off the claim has been filed but has not been decided.

On June 13th, 2001, May 22nd, 2002, December 31st, 2002, March 20th, 2003, and December 8th, 2003 , additional monetary claims were filed against Fertilizers and 9 additional defendants (including the State of Israel) in the amount of approximately $ 33 million , in addition to punitive damages for the discharge of sewage to the Kishon river which, according to the 47 claimants (most of them fisherman) was the cause of the cancer they developed. Dozens of factories and local authorities were joined as third parties to this claim as well.

In April 2004 a claim was filed against 4 defendants by 63 former soldiers (in addition to another claim previously filed by a former solider and his wife), alleging that severe physical damages were caused to them from contact with poisonous materials in the water of the Kishon river. The soldiers claim is in the amount of approximately $40 million, $21 million punitive damages and other material damages which were not quantified in the claim (including loss of future earnings, medical expenses, etc.). One of the defendants has issued a third party notice against Fertilizers, as well as against many other factories and authorities, including the State of Israel.

During the years 2001-2004 a series of claims were filed against Fertilizers and other entities for property damages caused by corrosion due to contact with Kishon waters by ship owners and Israel Shipyards in the amount of approximately $ 6.5 millions.

All of the above proceedings are pending in court in preliminary stages.

In the estimation of ICL management, based upon the opinion of its legal counsel handling these claims, the exposure relating to the claims can not be estimated at this stage and there fore no provision was included in the Company’s financial statements in respect thereof.

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 a company from the ICL Fertilizer segment which operates mines in Spain, and against former and current managers of that company, claiming that company 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. Yehoshua (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, and will take up his new position on 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 $21.2 million. The conditions precedent for the transaction to take effect have been fulfilled.

8.5 On April 14, 2004 the Company distributed a dividend of approximately $25.7 million.

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.

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.

May 30, 2004

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Akiva Mozes CEO	Yossi Rosen Chairman of the Board