

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

**Directors Report on the State of the Company's Affairs
for the three-month period ended March 31, 2005**

1. Description of the Company and its Business Environment

1.1 Description of the ICL Group

Israel Chemicals¹ ("**ICL Group**" or "**ICL**") is a multinational company that operates mainly in the areas of fertilizers and specialty chemicals, in four segments – fertilizers, industrial products, performance products and metallurgy.

ICL's operations are based primarily on natural resources – potash, bromine, magnesium and sodium chloride from the Dead Sea, and phosphates from the Negev Desert, all on the basis of concessions from the State of Israel. Operations are based as well on potash and salt mines in England and Spain under leases and concessions from the competent authorities in those countries. ICL is active in the production of these minerals, in their sale throughout the world, and also in the development, manufacture and marketing of downstream products based primarily on these raw materials.

ICL has a central position in the potash and bromine markets. Potash is a core component of fertilizers. The bromine serves a wide range of applications, primarily as a flame retardant. ICL's products are used mainly in the areas of agriculture, electronics, food products, oil and gas drilling, water purification and desalination, and in the detergent, paper, cosmetics, pharmaceutical, automotive and aluminum industries. The ICL Group has decades of accumulated experience in most of its businesses.

The ICL Group has direct access to most of the raw materials required for its activities, at low cost and high quality, by virtue of the exclusive concession granted to the ICL Group by the State of Israel for extraction of minerals from the Israeli side of the Dead Sea, in return for payment of royalties to the State. The costs of production of the potash and bromine that are extracted from the Dead Sea by ICL are relatively lower than the costs of other producers in the world who do not have access to the Dead Sea.

The ICL Group's main production facilities are based in Israel, Germany, Holland, Spain, England, the United States, China and France. Furthermore, the ICL Group has production facilities in Austria, Belgium, Turkey, Brazil, Argentina, and Australia.

ICL's operations outside of Israel are primarily in the production of products that are complimentary to or are based on ICL's operations in Israel or related fields. Over 92% of ICL's production is sold outside of Israel.

Less than 8% of ICL's total production is sold in Israel. In respect of certain products sold in Israel, ICL and its companies have been declared a monopoly. Approximately 45% of ICL's sales revenue arose from production activities, which take place outside of Israel.

ICL has no material dependency on any single customer, supplier, or source of raw materials that are not included in the concessions granted to the ICL Group.

¹ In this document, "ICL Group" means Israel Chemicals Ltd. and its consolidated companies.

The four segments of ICL's operations are grouped according to managerial-functional considerations. There is no full correlation between the managerial and the legal structure. The following is a description of the business segments:

- a. ICL Fertilizers – ICL Fertilizers produces potash from the Dead Sea and extracts and produces potash and salt from underground mines in Spain and England. ICL Fertilizers processes potash into various products and sells it worldwide. In addition, the segment uses a portion of its production of potash to manufacture compound fertilizers.

ICL Fertilizers mines and processes phosphate rock from open-pit mines in the Negev Desert, and produces in Israel sulfuric acid, fertilizer-grade phosphoric acid, phosphate fertilizers, compound fertilizers based primarily on potash and phosphate and specialty fertilizers. ICL Fertilizers also produces fertilizers in Holland, Germany and Belgium. In addition, ICL Fertilizers produces phosphate-based animal feed supplements in Turkey and in Israel.

ICL Fertilizers markets its products worldwide, primarily in Europe, Brazil, India, China, and Israel.

- b. ICL Industrial Products – ICL Industrial Products produces bromine from an end-brine that is created as a by-product of the production process of potash in Sdom and bromine-based compounds. ICL Industrial Products is the world's leading producer of bromine, producing about one-third of the world's output of bromine. ICL Industrial Products uses approximately 80% of the bromine it produces for its own production of bromine compounds in its production facilities in Israel, Holland and China. Additionally, ICL Industrial Products produces salt, magnesia and chlorine (from electrolysis of salt created as a by-product of potash production). ICL Industrial Products also produces chlorine-based industrial products in Israel and the United States.

ICL Industrial Products markets its products worldwide.

- c. ICL Performance Products - ICL Performance Products processes some of the fertilizer-grade phosphoric acid produced by ICL Fertilizers and uses it to produce downstream products with high added value. These products include food-grade phosphoric acid, phosphate salts, food additives and hygiene products. ICL Performance Products also produces specialty products based on aluminum oxide (alumina) and other raw materials. The lion's share of ICL Performance Products' production takes place at production facilities in Europe and specifically in Germany, as well as Israel, China and other countries. The products based on specialty phosphates represent approximately two-thirds of ICL Performance Products' sales.

- d. ICL Metallurgy – ICL Metallurgy produces and markets pure magnesium and magnesium alloys. The magnesium production is done in Sdom from carnallite that is extracted (during the potash production process) from the Dead Sea. ICL Metallurgy's magnesium products are used primarily in casting facilities to produce automotive parts and as a component in the aluminum alloy process in the aluminum industry. ICL Metallurgy's operations are conducted through a joint venture between the ICL Group and Volkswagen AG of Germany.

In addition to the business units described above, ICL has other operations that include water desalination (via a company that is 50% owned by ICL – IDE Desalination Engineering Ltd.) and land transportation (by the subsidiary Mifalei Tovala Ltd. – hereinafter "Mifalei Tovala").

Israel Corporation Ltd. ("Israel Corporation") holds approximately 50.2% of the capital and voting rights (about 49.4% at full dilution²) of the share capital of Israel Chemicals Ltd. The Ofer Group is the controlling shareholder in Israel Corporation.

² Assuming that all the debentures and all the options for shares of the Company will be converted to shares.

1.2 The Business Environment 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 global economic situation.

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.

The majority 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 in the average dollar-shekel exchange rate has a positive effect on ICL's profitability, and vice versa. ICL has surplus income over expenses in euro, so that appreciation of the average euro-dollar exchange rate has a positive effect on ICL's profitability. ICL customarily hedges against part of this exposure.

The Group's loans usually bear variable interest, a fact which exposes the Group to changes in the interest rates. The group hedges part of this exposure by means of financial instruments, including derivatives.

During the Report Period, most of ICL's areas of operation continued to their positive trend, due mainly to global economic growth and improvement in the Group's target markets. For example –

Conditions in the world agricultural market, which have a considerable effect on the demand for fertilizers, continue to be good.

The demand for some of ICL Group's bromine-based products, particularly fire retardants and clear brines for oil and gas drilling, also increased as a result of improvement in the target markets, including the electronics and chemicals markets.

The demand for ICL Performance Products was affected positively by economic improvement in some of the target markets, despite adverse effects from the economic slowdown in Europe, its main market, and from appreciation of the euro exchange rate, which made those of the segment's products manufactured in Europe less competitive.

- 1.3 This Directors Report accompanies the interim financial statements for the period ended March 31, 2005, 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 Periodic Report for the year 2004.

2. Results of Operations

2.1 Principal Financial Results

\$	1-3/2005		1-3/2004		2004	
	\$ millions	% of sales	\$ millions	% of sales	\$ millions	% of sales
Sales	710.0	100.0	619.1	100.0	2,715.0	100.0
Gross profit	279.0	39.3	200.4	32.4	937.1	34.5
Operating income	139.4	19.6	61.0	9.9	354.4	13.1
Pre-tax income (loss)	137.1	19.3	52.4	8.5	309.5	11.4
Net income	95.3	13.4	32.3	5.2	250.5	9.2
Cash flow from current operations	124.1		91.2		429.9	
Investments in property, plant and equipment, less grants	40.5		28.1		120.8	

2.2 Results of Operations for the Period January – June 2004

Sales

Sales of ICL Group in the quarter amounted to approximately \$710.0 million, compared with \$619.1 million last year, an increase of approximately 14.7%.

The increase in the Group's sales reflects an increase in turnover in all the segments of the Group's operations, as a result of price rises in most of the Company's products and increased quantities sold in some of the segments. The appreciation of the euro exchange rate against the dollar also contributed to income from sales in Europe.

Below is a breakdown of sales by geographical markets:

	1-3/2005		1-3/2004	
	\$ millions	%	\$ millions	%
Israel	53.3	7.5	48.0	7.8
North America	83.2	11.7	66.7	10.8
South America	24.9	3.5	46.3	7.5
Europe	333.6	47.0	335.2	54.1
Asia	185.4	26.1	90.1	14.6
Rest of the world	29.6	4.2	32.8	5.2
Total	710.0	100.0	619.1	100.0

The breakdown of sales in the quarter shows an increase in sales in Asia and North America, stability in Europe and a decrease in sales in South America. The decrease in sales in South America derives mainly from the decrease in sales to Brazil. The increase in sales in Asia is attributable mainly to increased sales of industrial products and potash.

Gross Profit

Gross profit amounted to approximately \$279.0 million, an increase of 39.3% compared with last year. The gross profit margin rose from 32.4% to 39.3% of sales turnover.

The increase in income as described above and the ongoing efficiency measures contributed to gross profit, despite increases in energy prices and the appreciation of the shekel and the euro against the dollar, which contributed to costs in dollar terms.

Sales and Marketing Expenses

Expenses amounted to approximately \$105.9 million, a decrease of about 0.5% compared with last year.

General and Administrative Expenses

These expenses totaled approximately \$25.7 million, compared with \$25.1 million last year. Despite the effect of the appreciation of the euro and shekel exchange rates on the expenses in dollar terms, efficiency and savings measures contributed to a slight increase in overhead expenses.

Research and Development Expenses

R&D expenses (net of grants from the Chief Scientist) amounted to approximately \$8.0 million, an increase of about \$0.2 million compared with last year.

Operating income

Operating income increased by some 128.5% compared with last year, reaching \$139.4 million. The percentage of operating income out of sales is 19.6%, compared with 9.9% last year. This was due mainly to price rises in most areas of the Group's operations and to the efficiency measures mentioned above.

Financing Expenses

Financing expenses amounted to about \$2.3 million, compared with \$8.6 million last year, a decrease of about \$6.3 million. The decrease in financing expenses compared with last year derives mainly from a decrease of about \$409 million in the average balance of net financial liabilities in the quarter compared with the same quarter last year, which was partially offset by a rise of about 1.4% in the average dollar interest rate for the period.

In addition, the Company recorded income of about \$4 million from exchange rate differentials.

Net Income

Net income amounted to approximately \$95.3 million, compared with \$32.3 million last year, an increase of 195.2%.

3. Segments of Operation

The segments of operation of ICL are presented below according to the managerial division described in Section 1.1 above.

Sales CIF by segment	1-3/2005		1-3/2004		2004	
	\$ millions	% of total sales	\$ millions	% of total sales	\$ millions	% of total sales
ICL Fertilizers	381.4	49.5	334.0	50.4	1,455.9	49.7
ICL Industrial Products	183.7	23.8	149.5	22.6	706.5	24.1
ICL Performance Products	153.3	19.9	139.2	21.05	582.5	19.9
ICL Metallurgy	30.7	4.0	21.2	3.2	88.2	3.0
Others and setoffs	(39.1)	-	(24.8)	-	(118.1)	-
Total	710.0	-	619.1	-	2,715.0	-

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

Operating income by segment	1-3/2005		1-3/2004		2004	
	\$ millions	% of total sales	\$ millions	% of total sales	\$ millions	% of total sales
ICL Fertilizers	83.0	21.8	45.7	13.7	243.5	16.7
ICL Industrial Products	34.5	18.8	8.2	5.5	63.0	8.9
ICL Performance Products	17.7	11.5	7.8	5.6	47.0	8.1
ICL Metallurgy	1.2	4.0	(1.8)	(8.3)	(3.3)	(3.7)
Others and setoffs	3.0	-	1.1	-	4.2	-
Operating income (consolidated)	139.4	19.6	61.0	9.9	354.4	13.1

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 \$381.4 million, an increase of about 14.2% compared with last year. The increase in sales turnover arises mainly from high prices for most of the segment's products as a result of ongoing price rises in the world's fertilizer markets. 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 \$83.0 million, an increase of about 81.8% compared with last year. The operating margin on sales was about 21.8%, compared with 13.7% last year. The improved operating income was achieved mainly as a result of the increase in income noted above. However, an increase in various production costs, principally energy costs, and the effect of the appreciation of the shekel on the shekel expenses of the segment in dollar terms, moderated the positive effect on operating income. Transportation prices remained high in the quarter;

nevertheless, the Company's logistical advantage over some of its competitors mitigated the effects of the rise in marine transportation prices from Israel to its sales destinations.

Negev Minerals Co. was sold during the second quarter of 2004, and the results of its operations are no longer included in the results of the segment.

Potash

Sales revenue from potash includes the sales from Dead Sea Works Iberpotash and CPL.

Potash – Sales Revenue and Operating Income

Millions of dollars	1-3/2005	1-3/2004	2004
Sales revenue*	268.1	206.6	932.3
Operating income	76.6	46.4	231.0

* Including revenue from inter-segment sales, including potash sales in the Group as a raw material for fertilizer production.

The increase in sales revenue is the result of the ongoing rise in the prices of potash together with a slight increase in quantities sold. The improvement in operating income, which increased in the report period by about 65.1%, derives primarily from the improvement in the selling prices.

Potash – Production and Sales

Thousands of tons	1-3/2005	1-3/2004	2004
Production	1,307	1,312	5,387
Sales*	1,230	1,171	5,137

* To external customers.

Production in the period was similar to last year last year, where the increase in sales derives from large-volume sales in Asia which was offset by a decrease in sales to Europe and Brazil in the quarter as a result of the late start to the season due to severe weather conditions.

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.

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 (green") acid used as a raw material for the production and downstream products, as well as other products.

**Fertilizers and Phosphates –
Sales Revenue and Operating Income**

Millions of dollars	1-3/2005	1-3/2004	2004
Sales revenue*	122.0	135.5	550.4
Operating income	6.2	(1.5)	12.9

* Including revenue from inter-segment sales.

The decrease in sales revenue by about 10% compared with the same period last year, despite the rise in the prices of most of the products, derives from smaller quantities sold of phosphate fertilizers in Europe and Brazil, as a result of the late start to the season due to harsh weather conditions.

Despite this decrease in sales revenue, operating income increased in the quarter compared with last year, due to the price rises and to the disruption in production last year. The improved operating income was achieved in spite of the rise in the prices of energy and other inputs, and the appreciation of the shekel against the dollar.

Fertilizers and Phosphates – Production and Sales

Thousands of tons	1-3/2005	1-3/2004	2004
<u>Phosphate rock</u>			
Production	881	729	3,290
Sales*	141	135	566
<u>Fertilizers</u>			
Production	415	387	1,696
Sales*	327	456	1,664

* To external customers.

Phosphate rock is produced according to demand, both for internal uses and for sales, while maintaining suitable stock levels. The volume of sales of rock in the quarter derives partially from the segment's policy diverting most of the output to internal uses of higher added value in the manufacture of acids and fertilizers.

ICL Fertilizers is engaged in the construction of a plant at its site in Mishor Rotem, 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 \$183.7 million, an increase of about 22.9% compared with last year. The increase in sales derives mainly from a sharp rise in prices in almost all the areas of the segment's operations and an increase in the quantities sold of some products.

Sales revenue from flame retardants increased considerably, mainly as a result of sharp price rises in most products. Sales volumes of industrial bromine products increased, particularly elementary bromine and clear brines, due to increased demand for bromine compounds and demand in the oil and gas industries which led to price rises in most products.

Sales of agricultural products decreased in quantities sold in the period, partially due to smaller quotas for use of methyl bromide for soil fumigation in Europe and in developing countries and partially as result of strong sales last year. Nevertheless, operating income was not adversely affected.

In biocides for water treatment, sales revenue increased as a result of price rises following a temporary levy against dumping which was imposed on biocides imported from China and Spain. In magnesia products for the refractory industry and other uses, sales revenue increased following price rises resulting from improved demand for some of the products.

Quantities of sales of most chlorine-based products from the Dead Sea increased, contributing to increased sales revenue.

Montreal Protocol

Under the accord known as the "Montreal Protocol", to which Israel is a signatory (and which was adopted 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, except for "critical uses" approved by the parties to the accord from time to time. The quantities approved for production and sale in 2005 are similar to those approved for 2003 and 2004 except in western Europe, where the member countries decided voluntarily to reduce quantities to about 65% compared with 2004. The effect of this decrease in Europe on the products of ICL Industrial Products is not material.

During 2005, "critical uses" will be discussed in relation to 2006 and 2007. Sales in the first quarter of 2005 of agricultural products that will be banned if not approved for critical uses in the future, amounted to approximately \$4.1 million, with an operating income in respect of those sales of about \$1.3 million.

The limit on the quantity of methyl bromide that can be sold to developing countries for soil fumigation will remain in effect until 2015, after which the quantity will be reduced to zero, subject to critical uses as approved by the parties to the accord from time to time. Methyl bromide has other uses apart from soil fumigation, for which production and consumption quantities are unlimited, such as pre-shipment and quarantine treatment, 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 Industrial Products intends to remain in the soil fumigation field even after the ban on use of methyl bromide for that purpose. Accordingly, in recent years it has been investing efforts in the development and marketing of substitute and complementary products for methyl bromide in this important market.

Total sales of agricultural products in the first quarter of 2005 for uses which are not restricted under the Montreal Protocol and to developing countries, were about \$7.5 million, with an operating income in respect of those sales amounting to about \$2.1 million.

Operating income

Operating income in the segment was approximately \$34.5 million, an increase of about 321.7% compared with last year.

The increase stemmed mainly from increased sales revenue and from the continued improvement in the efficiency of the segment's operations. The increase in operating income was offset by a rise in the prices of some raw materials and of energy costs, and by the effects of appreciation of the shekel against the dollar.

3.3 ICL Performance Products

Sales

Sales in this segment amounted to approximately \$153.3 million, an increase of about 10.2% compared with last year. The increase in sales turnover derives from a rise in selling prices and the effects of appreciation of the euro against the dollar, and from increased quantities sold of some of the segment's product lines, notably food additives. Conversely, the ongoing economic slowdown in Europe, the surplus production capacity in some of the market's for the segment's products 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 \$17.7 million, about 125.6% higher than in the same period last year. The margin was about 11.5%, compared with 5.6% last year.

This increase in sales, along with operational improvements in some of the segment's operations, particularly white acid (food-grade phosphoric acid), contributed to the improvement in profitability. Conversely, increased costs of important inputs, especially raw materials, partially offset the improvement. The appreciation in the euro-dollar exchange rate also had an adverse effect on profitability from sales of products to customers whose purchases are denominated in dollars.

3.4 ICL Metallurgy

Sales

Sales in this segment amounted to approximately \$30.7 million, an increase of about 44.7% compared with last year.

The increase in sales derives mainly from a rise in selling prices of the various types of magnesium, due partly to the strengthening euro against the dollar and to increased quantities sold, along with a rise in the share of magnesium alloys in the sales mix. Levies which were imposed in the USA following the statement of the Authorities, that Russia and China sold by the way of price dumping. 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, were the principal factors that led to a rise in the prices of magnesium in global markets.

Operating income

Operating income in the segment amounted to approximately \$1.2 million, compared with an operating loss of about \$1.8 million in the same period last year. The improved income is due to the rise in prices noted above and to the ongoing efficiency measures, which were offset by a rise in the prices of some production inputs, particularly energy and materials expenses.

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 report period, the trend of decreasing net financial liabilities of the Group continued, and at the end of the period those liabilities amounted to \$488.8 million after a decrease of \$80.0 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. On March 4, 2005 ICL Group closed a transaction with foreign institutional investors in which it raised \$125 million for a period of five to ten years (average repayment period – 8 years), at interest varying between LIBOR + 1% and LIBOR + 1.15%.

The Company continued to issue short-term commercial papers, and as at the report date the outstanding balance held by the public amounted to approximately \$14 million.

Cash flows

ICL's cash flow from current operations in the first quarter of 2005 amounted to approximately \$124.1 million, compared with \$91.2 million in the same period last year, an increase of about \$32.9 million. These amounts were the principal source for financing investments in property, plant and equipment of \$40.5 million and for decreasing the Group's net financial liabilities by approximately \$79 million.

5. Investments

In the report period, investments in property, plant and equipment net of investment grants amounted to approximately \$40.5 million, compared with investments in property, plant and equipment less grants amounting to \$28.1 million in the same period last year.

6. Human Resources

The total number of employees at ICL Group as at March 31, 2005 is 8,535, compared with 8,546 on December 31, 2004. The decrease is mainly the result of ongoing efficiency measures and cutting Company costs.

In the collective bargaining agreement, which was signed in 1978 with the workers of Dead Sea Works, a fully owned ICL – subsidiary a special arrangement for early retirement of workers at the Sedom facility was agreed upon. Subsequent to the decision of the National Labor Court, to declare these arrangements as null and void, DSW and the Workers Counsel entered into negotiations, which led to the formulation of an agreement, according to which workers from the Sedom plant are entitled to early retirement at the age of 60. At the date of this report no final agreement has been signed yet.

7. Exposure to Market Risks and their Management

No material change occurred during the report period, compared with the Directors' Report for 2004.

8. Update of the description of the corporation's business

No material change occurred during the report period, compared with the Directors' Report for 2004.

9. Events during the period

- 9.1 Commencing May 1, 2005, Mr. Shmuel Shimol, CPA, a partner in the firm of Deloitte – Breitman Almagor and internal auditor at several companies, is appointed as internal auditor of the Company. The previous internal auditor has transferred to another position within the ICL group.
- 9.2 On April 20, 2005 the Company distributed a dividend of approximately \$35.7million.

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 25, 2005

Akiva Mozes
CEO

Yossi Rosen
Chairman of the Board