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

ICL-ISRAEL CHEMICALS LTD. כימיקלים לישראל בע"מ

Directors Report on the State of the Company's Affairs

for the period ended June 30, 2006

Following is the Israel Chemicals Ltd. ("**ICL**" or "**the Company**") Directors Report for the period ended June 30, 2006.

1. Description of the Company and its Business Environment

1.1 Description of the ICL Group

Israel Chemicals **("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 and licenses 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 component of flame retardants. ICL's products are used primarily 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, the United States, Holland, Spain, England, China, Brazil and France. Furthermore, the ICL Group has production facilities in Austria, Belgium, Turkey, Argentina, and Australia.

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. Approximately 93% of ICL's products are sold outside Israel.

The activities of ICL's facilities are integrated with one another, in terms of both supply of raw materials and whereby frequently one facility utilizes by-products of another facility to produce end-products (for example, bromine is produced by utilizing the bromine present in the byproduct streams from the evaporation ponds used to manufacture potash, etc.)

Approximately 7% of ICL's products are sold in Israel. For some of these sales, in certain products, ICL and some of the ICL companies have been declared a monopoly in Israel.

Approximately 50% of ICL's sales revenue stem from manufacturing operations outside Israel.

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

The four main segments of ICL's operations are grouped according to managerial-functional considerations, as follows:

A. **ICL Fertilizers** – ICL Fertilizers produces potash from the Dead Sea and mines and produces potash and salt from underground mines in Spain and England. ICL Fertilizers refines potash into various grades 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 additives 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 as well as bromine-based compounds. ICL Industrial Products is currently the world's leading producer of bromine. ICL Industrial Products produces around 35% of total global production. ICL Industrial Products uses most 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 various salts, magnesia and chlorine (produced along with caustic soda from electrolysis of salt created as a by-product of potash production and used as a raw material in the segment's production processes). Additionally, ICL Industrial Products 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 purifies some of the fertilizer-grade phosphoric acid produced by ICL Fertilizers, purchases purified phosphoric acid from other sources and also produces thermal phosphoric acid. The pure acid is used to produce downstream products with high added value – phosphate salts, food additives, hygiene products, phosphorus derivatives and products for preventing the spreading of fires. ICL Performance Products also produces specialty products based on aluminum oxide (alumina) and other raw materials. ICL Performance Products' production takes place mainly in Germany, the United States, Brazil, Israel and China.

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 these segments, ICL has other operations that include water desalination and land transportation.

Management by segment is performed on a group-wide managerial-functional basis, even when the managerial structure and the legal ownership do not fully correspond.

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 global economic situation.

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

The vast majority of ICL's sales are made in foreign currency, mainly U.S. dollars and the euro. A portion of its operating expenses are in NIS. Therefore, a devaluation of the currency exchange rate of the NIS relative to the US dollar has a positive impact on ICL's profitability, and vice-versa. ICL has more revenues than expenses in Euro. Therefore, an appreciation of the exchange rate of the Euro relative to the US dollar has a positive impact on ICL's profitability, and devaluation has a negative impact. ICL hedges against some of these exposures.

Most of the Group's debt bears variable interest rates. Therefore, the Group is exposed to fluctuations in interest rates. The Company partially protects against such exposure by using financial hedging instruments including derivatives.

The negotiations between the potash suppliers and the Chinese customers regarding the price of potash in the framework of the annual agreement for the year 2006, continued longer than has been usual in recent years. This has led to a cessation of shipments to China by sea. In addition, the decision by other potash consumers to wait and see the outcome of the negotiations with the Chinese, the ongoing weakness in the Brazilian market and the long winter in Europe, led to a significant reduction in potash sales since the beginning of 2006 and to a corresponding increase in potash stocks. These effects have led a number of major potash producers to announce a reduction in production at their plants, in order to adjust production to sales. At the end of July, sale transactions were made between some potash manufacturers, including ICL Fertilizers, for the supply of potash to the Chinese customers for the rest of 2006, accompanied by a rise in prices. At the end of August, ICL Fertilizers concluded an agreement with its major Indian customer for the sale of Potash for the period until April, 2007, at a price similar to the previous agreement.

The recovery in the electronics market has led to growth in the demand for flame-retardants compared with last year. Sales prices of bromine and many of its compounds rose compared with the corresponding period last year. Of particular note are the selling prices of chemicals used in oil drilling which rose considerably compared with last year.

The activity of ICL Performance Products is affected by the increasing competition in some of its target markets and by the rate of exchange. The devaluation in the average rate of exchange of the euro relative to the US dollar compared with the corresponding quarter of last year, helped increase competitiveness in some of its production activity in Europe.

The rise in energy prices and the drop in the demand for magnesium in some markets negatively impacted the profitability of ICL Metallurgy. Also noteworthy is the rise in the prices of energy and some raw materials, which influenced production costs in other segments as well.

The fighting that broke out on Israel's northern border after the balance sheet date has not materially affected ICL.

1.3 This Directors Report accompanies the interim financial statements for the period ended June 30, 2006, 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 2005.

2. Results of Operations

2.1 Principal financial results

Following is a summary of the results of operations in the reviewed period compared with the corresponding period of last year, in $ millions.

	1-6/2006		1-6/2005		4-6/2006		4-6/2005		2005	
	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales
Sales	1,564.2	100.0	1,484.0	100.0	847.3	100.0	773.9	100.0	2,986.0	100.0
Gross profit	548.9	35.1	575.2	38.8	279.3	33.0	296.1	38.3	1,140.7	38.2
Operating income	260.4	16.6	281.7	19.0	124.3	14.7	142.2	18.4	561.3	18.8
Pre-tax income	244.9	15.7	282.7	19.1	113.7	13.4	145.6	18.8	514.3	17.2
Net income	188.9	12.1	196.5	13.2	92.3	10.9	101.2	13.1	422.2	14.1
Cash flow from current operations	137.4		243.1		92.7		119.0		490.9	
Investment in property, plant and equipment less grants	63.0		75.0		30.8		34.5		147.8	

2.2 Results of operations for the period January – June 2006

Sales

Sales of ICL Group in the reporting period amounted to approximately $1,564.2 million, compared with $1,484.0 million last year, an increase of approximately 5.4%. This growth reflects mainly the effect of the inclusion of sales in respect of the operations of Astaris (acquired in November 2005), and price rises in most of the segments of operation, which were offset by a quantitative drop in potash sales and sales of a number of other products.

Below is a breakdown of sales by geographical markets:

Sales CIF	1-6/2006		1-6/2005		2005	
	$ millions	%	$ millions	%	$ millions	%
Israel	102.0	6.5	111.3	7.5	215.1	7.2
North America	374.7	24.0	169.7	11.4	390.0	13.1
South America	128.0	8.2	150.2	10.1	309.1	10.4
Europe	618.7	39.5	655.3	44.2	1,228.6	41.1
Asia	276.9	17.7	337.8	22.8	704.8	23.6
Rest of the world	63.9	4.1	59.7	4.0	138.4	4.6
Total	1,564.2	100.0	1,484.0	100.0	2,986.0	100.0

The breakdown in sales for the first half of 2006 shows a sharp increase in sales and in percentage of sales in North America. This growth is affected primarily by the addition in sales in the ICL Performance Products segment as a result of the acquisition of the operation of Astaris (in November 2005). In the other markets, sales decreased, due mainly to the effect of the prolonged negotiations being conducted by the world's leading potash suppliers with their Chinese customers, which ended in late July as stated, and due to the effects of the Brazilian Real on the sales of fertilizers in that country, which was partially offset by the acquisition of new operations there (Astaris and Adicon) and the effects of the long winter on the sales of fertilizers in Europe. The drop in sales in Europe in dollar terms stems also from the devaluation of the euro relative to the dollar compared with last year.

Gross profit

Gross profit totaled $548.9 million, a decrease of 4.6% compared with the same period last year. Gross profit for the period includes approximately $16 million recorded in the first quarter of the year in respect of loss of earnings following the flood damages in Sdom at the end of 2004.

The gross profit was affected mainly by the drop in sales quantities of potash and by the growth in the costs of principal inputs, mainly the rise in energy prices, the prices of some raw materials and land transportation costs. Gross profit for the period was affected by a non-cash expense of approximately $6.5 million, which derives from the dollar increase of liabilities to employees resulting from the appreciation of the shekel towards the end of the quarter. Nevertheless, the rise in sales prices, as aforesaid, the acquisition of the Astaris activity and the ongoing efficiency measures, partially offset the erosion in gross profit. The improvement in selling prices at ICL Industrial Products resulted in record earnings in the segment.

Gross profit out of sales turnover is 35.1%, compared with 38.8% in the same period last year, due mainly to the smaller quantities of potash sold. Furthermore, the margins at Astaris are lower than the average in the Company.

Sales and marketing expenses

Sales and marketing expenses totaled $211.6 million, a decrease of approximately 6.3% compared with the corresponding period last year. The drop in expenses stems from a quantitative drop in sales, and potash sales in particular. On the other hand, there was a growth in expenses stemming from the new activities acquired in the United States and Brazil. Despite the negative effect of the rise in energy prices on transportation costs in general, the marine transportation costs in the ICL Fertilizers segment dropped, compared with the corresponding period last year. This is the result of a drop in bulk marine transportation costs compared with the prices that prevailed in the corresponding period of last year and a drop in the quantities conveyed. It should be noted that towards the end of the period, marine transportation prices started to rise.

General and administrative expenses

General and administrative expenses totaled $59.9 million, an increase of approximately 15.0% compared with the corresponding period last year. The increase in administrative expenses stems mainly from the consolidation of the activities acquired in the United States and Brazil.

Research and development expenses

R&D expenses (net of grants from the Chief Scientist) amounted to approximately $17.0 million, an increase of about $1.5 million compared with the same period last year.

Operating income

Operating income decreased by 7.6% compared with last year, reaching $260.4 million. This decrease stems mainly from a reduction in gross profit as aforesaid, which was moderated due to the reduction in sales and marketing expenses. The percentage of operating income out of sales is 16.6%, compared with 19.0% last year.

Financing expenses

Net financing expenses amounted to approximately $18.5 million, compared with $1.2 million last year, when the Company recorded income of $14 million from exchange rate differences. In addition, net financing expenses were influenced by an increase of approximately $87 million in the average balance of net financial liabilities in the period, compared with the corresponding period last year, and by a rise of approximately 1.4% in the average dollar interest rate for the period.

Tax expenses

The tax expense for the period amounted to $62.8 million, compared with $86.8 million last year. The pre-tax profit tax rate dropped from 30.7% to about 25.6%.
Following legislation of an amendment to the Income Tax Ordinance in July 2005, the corporate tax rate fell from 34% last year to 31% this year. Utilization of tax losses in respect of which deferred taxes were not created in the past, also contributed to the lower tax percentage for the period compared with last year.

Net income

Net income amounted to $188.9 million, compared with $196.5 million in the same period last year.

2.3 Results of operations for the period April – June 2006

Sales

Sales of ICL Group in the quarter amounted to $847.3 million, compared with $773.9 million last year, an increase of approximately 9.5%.
The increase in sales reflects mainly the inclusion of the sales of Astaris, and the price rises in most of the Group's segments of operation.

The table below shows the geographical breakdown of sales in the second quarter of 2005:

	4-6/2006		4-6/2005	
	$ millions	**%**	**$ millions**	**%**
Israel	55.1	6.5	58.0	7.5
North America	198.5	23.4	85.5	11.0
South America	90.8	10.7	126.3	16.3
Europe	316.2	37.3	321.7	41.6
Asia	152.3	18.0	152.4	19.7
Rest of the world	34.4	4.1	30.0	3.9
Total	847.3	100.0	773.9	100.0

The breakdown of sales in the quarter is largely similar to that for the period, and reflects the same trends. Total sales to Asia remained the same as in the second quarter of 2005, despite the halt in sales of potash to China and India, mainly due to the increase in sales of bromine and bromine compounds.

Gross profit

Gross profit amounted to $279.3 million, a decrease of 5.7% compared with last year. The gross profit margin decreased from 38.3% to 33% of total turnover.

The decrease in the sales of the fertilizer segment and the rise in energy prices and in the prices of some raw materials, resulted in a decrease in gross profit. Gross profit for the period was affected by a non-cash expense of approximately $6.5 million, which derives from the dollar increase of liabilities to employees resulting from the appreciation of the shekel towards the end of the quarter. The erosion in the gross profit was partially offset by the improvement in selling prices at ICL Industrial Products which resulted in record earnings in this segment.

Sales and marketing expenses

These expenses amounted to $114.3 million, a decrease of about 4.8% compared with last year, which was due mainly to the decrease in the sales of the fertilizer segment.

General and administration expenses

These expenses amounted to $32.2 million, compared with $26.4 million last year, mainly due to the acquisition of the assets and business of Astaris.

Research and development expenses

R&D expenses (net of grants) amounted to $8.5 million, an increase of about $1 million compared with last year.

Operating income

Operating income decreased by 12.6% compared with last year, and reached $124.3 million. Operating income out of sales amounted to 14.7%, compared with 18.4% last year.

Financing expenses

Financing expenses amounted to $12.5 million, compared with income of $3.5 million last year. Last year the Company recorded income of approximately $10.0 million from exchange rate differences.

Financing expenses were influenced by an increase of approximately $110 million in the average balance of net financial liabilities in the quarter compared with the corresponding quarter last year, and by a rise in the average dollar interest rates for the period by approximately 1.4%.

Income tax

Taxes on income in the second quarter amounted to $25.6 million, which is approximately 22.4% of pre-tax income, compared with about 30.4% last year.

Net income

Net income for the quarter amounted to $92.3 million, compared with $101.2 million in the same period last year, a decrease of about 8.8%.

3. Segments of Operation

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

Sales CIF by segment	**1-6/2006**		**1-6/2005**		**4-6/2006**		**4-6/2005**	
	$ millions	**% of total sales**	**$ millions**	**% of total sales**	**$ millions**	**% of total sales**	**$ millions**	**% of total sales**
ICL Fertilizers	639.7	38.0	809.5	50.4	358.6	39.5	428.1	51.2
ICL Industrial Products	468.3	27.8	380.9	23.7	248.5	27.4	197.2	23.6
ICL Performance Products	497.5	29.5	316.3	19.7	255.3	28.1	162.9	19.5
ICL Metallurgy	45.2	2.7	57.9	3.6	26.0	2.9	27.2	3.3
Others and setoffs	(86.5)		(80.6)		(41.1)		(41.5)	
Total	1,564.2		1,484.0		847.3		773.9	

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

Operating income by segment	**1-6/2006**		**1-6/2005**		**4-6/2006**		**4-6/2005**	
	$ millions	**% of total sales**	**$ millions**	**% of total sales**	**$ millions**	**% of total sales**	**$ millions**	**% of total sales**
ICL Fertilizers	100.4	15.7	168.9	20.9	46.5	13.0	85.8	20.0
ICL Industrial Products	131.2	28.0	68.9	18.1	69.1	27.8	34.3	17.4
ICL Performance Products	41.9	8.4	36.1	11.4	17.2	6.8	18.4	11.3
ICL Metallurgy	(16.0)	(35.4)	1.4	2.5	(10.6)	(40.5)	0.2	0.8
Others and setoffs	2.9		6.4		2.1		3.5	
Total	260.4	16.6	281.7	19.0	124.3	14.7	142.2	18.4

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 in the reporting period amounted to approximately $639.7 million, a decrease of 21% compared with the same period last year. The decrease in sales turnover arises mainly from a sharp drop in potash sales, mainly to China and India, which was partly offset by a price rise in comparison with the first half of last year.

Profitability

Operating income in the segment amounted to $100.4 million, a decrease of 40.5% compared with the corresponding period of last year. The operating margin on sales was 15.7%, compared with 20.9% last year.

The decrease in profit stems from smaller quantities sold and a rise in costs of principal production input, and energy prices in particular, which was partly offset by price rises, as stated. The operating income includes revenues from insurance payments received in the first quarter of the year in respect of flood damage in Sdom at the end of 2004.

The prices of bulk transportation prices fell, on average, in comparison with last year. Conversely, the average cost of land transportation rose in comparison with last year, mainly as a result of the increase in the price of diesel fuel and revised rail transportation prices.

Potash

Potash – Sales Revenue and Income

Thousands of dollars	1-6/2006	1-6/2005	4-6/2006	4-6/2005	2005
Income*	391.4	547.1	214.3	279.0	1,064.1
Operating income	93.6	154.1	42.2	77.5	333.6

* Including revenue from inter-segment sales.

The decrease in revenue compared with last year is the result of a decrease in quantities sold, which was partly offset by the price rises. The decrease in sales stems from the drop in the demand for potash, due to the wait for the closing of the contract for the sale of potash to China, which was signed only in July, and due to the weak markets in Europe and Brazil.

At the end of July, an agreement incorporating a price rise was signed with an important account in China for the sale of potash for the rest of 2006 at higher prices, and shipments to the customer were resumed. At the end of August, an agreement was signed with ICL's major customer in India for the sale of potash until April, 2007, at the same price level as in the previous agreement.

The 39.3% drop in operating income derives primarily from the drop in quantities sold, coupled with the rise in the prices of some production inputs, notably energy.

Potash – Production and Sales

Thousands of tons	1-6/2006	1-6/2005	4-6/2006	4-6/2005	2005
Production	2,500	2,636	1,242	1,330	5,263
Sales to external customers	1,577	2,475	901	1,244	4,721
Sales to internal customers	115	139	65	73	252
Total sales (including internal sales)	1,692	2,614	966	1,317	4,973

The decrease in potash production stemmed partly from a stoppage of several days for maintenance operations at the Sdom plant. The smaller sales quantities are mainly a reflection of the absence of sales to China and India, and of smaller quantities sold to Brazil and in Europe.

Brine percolation exists at one of the dikes of the evaporation ponds of ICL Fertilizers at the Dead Sea. In 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 and compound fertilizers, liquid fertilizers and fully soluble fertilizers, which include differing proportions of nitrogen, phosphorus and potassium), fertilizer-grade ("green") phosphoric acid used as a raw material for the production of fertilizers, as well as other products.

Fertilizers and Phosphates – Sales Revenue and Income

Millions of dollars	1-6/2006	1-6/2005	4-6/2006	4-6/2005	2005
Income*	267.9	280.7	155.7	158.7	548.5
Operating income	6.4	14.4	5.2	8.2	15.4

* Including revenue from inter-segment sales.

Revenue in the period was approximately 4.6% lower than in the corresponding period last year, mainly due to a drop in sales of fertilizers, especially to Brazil.

The decrease in operating income in the period stemmed mainly from the decrease in revenue and from the rise in the prices of inputs, especially energy.

Fertilizers and Phosphates – Production and Sales

Thousands of tons	1-6/2006	1-6/2005	4-6/2006	4-6/2005	2005
Phosphate rock					
Production	1,520	1,713	762	826	3,236
Sales*	258	187	204	106	365
Fertilizers					
Production	770	830	386	413	1,636
Sales*	764	806	406	483	1,671

* To external customers

Phosphate rock is produced according to needs, both for internal uses and for sales to external customers, while maintaining suitable stock levels. The drop in production compared with the corresponding period last year stemmed, among other things, from the strategic change in the use of various types of rock, in which the operation of the calcining facility at the Zin site in the Negev was ceased. It should be noted that, in the second quarter of the year, production of fertilizer-grade phosphoric acid (green acid) improved considerably as a result of enhanced processes.

The increase in rock sales in the period stems mainly from the closing of a specific transaction with India. The segment's policy is to transfer most of its rock for internal use with higher added value, in the production of acids and fertilizers.

The decrease in sales of fertilizers is due mainly to falling demand in Brazil, which was partly compensated by a considerable increase in Australia.

The running-in of a plant in Mishor Rotem, for the production of technical grade mono-ammonium phosphate (MAP), mainly for use as a soluble fertilizer, continues. The plant's output during the running-in period is being sold on a regular basis.

3.2 ICL Industrial Products

Sales

Sales in this segment in the report period amounted to $468.3 million, an increase of about 23.0% compared with last year. The increase in sales derives mainly from price rises in almost all areas of the segment's operations, and from an increase in the quantities sold of some products, particularly fire retardants and biocides for water treatment.

The increase in sales revenue from flame retardants was mainly as a result of price rises in most of the products and increased quantities sold in comparison with the same period last year, as a result of the recovery in the demand for flame retardants.

Sales revenue from inorganic bromine products increased, due to price rises and despite the drop in quantities sold.

Revenues and profitability from sales of agricultural products decreased, mainly due to the smaller quantities sold of methyl bromide approved for "critical uses", as prescribed in the Montreal Protocol.

A significant increase in sales and profitability occurred in water treatment biocides as a result of a growth in sales quantities following a new agreement with a retail distributor, and as a result of price rises in the main target market (North America).

Revenues for magnesia products were slightly lower than last year, with price rises being offset by a reduction in quantities sold (mainly due to a reduction in magnesium sales for the refractory industry). Revenue from sales of Dead Sea salts was similar to last year.

Profitability

Operating income in this segment in the report period amounted to $131.2 million, an increase of about 90.5% compared with last year.

The increase stemmed mainly from an increase in selling prices, as well as an increase in quantities sold in some areas of operation, which was partly offset by increased expenses for energy and some other inputs.

With the trend in the European Union to consider limiting the use of bromine-based fire retardants, European Union authorities instituted a process of risk assessment of the commercial (i.e. currently available) bromine-based fire retardant – DECA. This product contains about 97% DECA, and the remainder is a substance called NONA. In its decision of October 13, 2005, which is based on that risk assessment process, the European Union Council announced that DECA had been removed from the list of substances banned under its Restriction of Hazardous Substances directive. Recently, EU authorities have voiced the opinion that the above decision referred only to pure DECA, without any added NONA. ICL Industrial Products is endeavoring, through a forum in which it and the other large DECA manufacturers are members; to convince the EU not to limit the use of DECA which contains NONA to some of the applications in which it is used today, since ICL Industrial products believes that position to be incorrect.

3.3 ICL Performance Products

After purchase of the assets and operations of Astaris in the U.S. and the Adicor plant in Brazil, ICL commenced organizational actions intended to integrate the acquired operations with existing operations at ICL Performance Products in order to maximize the operational synergies. As part of this process, Mr. Richard V. Kennedy, Jr. was recently appointed as president and CEO for ICL Performance products, and appointments were made of the managers for the geographical units and the areas of operation within the segment.

Sales

Sales in this segment totaled $497.5, an increase of approximately 57.3% compared with the corresponding period last year. The growth in turnover compared stems from the inclusion of the activity acquired from Astaris in November 2005, an increase in some sales prices, a quantitative growth in some of the segment's product lines, and the acquisition of Adicor, which manufactures additives for the food industry in Brazil.

On the other hand, the relatively low growth rates in Europe, the relatively high dollar/euro exchange rate, surplus production capacity for the segment’s products in some of its markets and the increasing competition in some of its target markets, which led to a quantitative decrease in some products, is still burdening growth in some of the segment’s areas of activity.

Profitability

Operating income in the report period totaled $41.9, which is 16.2% higher than in the corresponding period of last year. The operating margin on sales was 8.4%, compared with 11.4% last year. The drop in the profitability rate, despite the rise in income, stems mainly from the consolidation of the activity of ICL Performance Products in America (acquired from Astaris) with its relatively lower profitability rates than those of ICL Performance Products in Europe.

The growth in revenues, as stated, coupled with an operational improvement in some activities, the consolidation of the results of the operations acquired in America and further efficiency and savings activities, contributed to the increase in profit. The increase was partly offset by an increase in main production input costs, and by a rise in the prices of raw material and energy.

3.4 ICL Metallurgy

Sales

Sales in this segment amounted to $45.2 million, a decrease of about 21.9% compared with last year.

The drop in sales stemmed mainly from a quantitative decrease and a drop in the sales prices of the various types of magnesium, a trend that began in the third quarter of last year, mainly influenced by the slowdown in the automotive industry in North America.

Profitability

The operating loss in the segment totaled approximately $16.0 million, compared with an operating profit of $1.4 million in the corresponding period last year. The loss stems from a decrease in selling prices, as stated, and a rise in energy input prices, as well as a decrease in production quantities during the period.

4. The financial position and financial resources of the Group

ICL's policy is to diversify its sources of financing among various financial instruments and between local and foreign sources.

In the first half of the year, the net financial liabilities of the Group remained stable in comparison with the balance at the end of 2005. At the end of the period those liabilities amounted to $603.3 million. This stability is the result of a decrease in the cash flow compared with last year (see below).

The Group’s principal source of financing is short-term and long-term bank loans, from banks in Israel and from international banks.

Cash flow

ICL's cash flow from operating activities in the first half of 2006 amounted to $137.4 million, compared with $243.1 million in the same period last year, a decrease of approximately $105.7 million. The decrease in potash sales in the Fertilizers segment was partly offset by a reduction in customer debt, but the decrease in sales led to growth in potash stocks. Tax payments in cash also contributed to the decrease in cash flow from operating activities. Cash flow from operating activity was the main source of financing for investments in fixed assets, and for payment of a dividend of approximately $90 million.

Insurance

In April 2006, ICL Group increased its property insurance against physical damage and business interruption due to earthquake, from $500 million to $575 million, at market terms for this type of cover.

5. Investments

In the report period, investments in property, plant and equipment net of investment grants amounted to approximately $63 million, compared with investments in property, plant and equipment net of grants amounting to approximately $75 million in the same period last year.

6. Manpower

The total number of employees at ICL Group as at June 30, 2006 is 9,312, compared with 8,557 on June 30, 2005. The increase is mainly in the ICL Performance Products segment, due to the acquisition of the activity of Astaris in the United States and Brazil and the acquisition of additional food additive operations in Brazil.

7. Exposure to market risks and their management

No material change occurred during the report period, compared with the Directors' Report for 2005.

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

No material change occurred during the report period, compared with the Directors' Report for 2005.

9. Events during and after the period

9.1 At the Annual General Meeting of Shareholders of the Company, which took place on April 23, 2006, it was decided, inter alia, to reappoint Messrs. Yossi Rosen, Irit Izakson, Chaim Erez, Muhammad Dahleh, Moshe Vidman, Noga Yatziv, Avisar Paz, Gilad Shavit, Amnon Sadeh and Avraham (Beiga) Shochat. as Company Directors. The appointment of Messrs. Yaacov Dior and Ben Rabinovitz as outside directors remains in effect. On May 9, 2006, Mr. Gilad Shavit ceased to serve as a Company Director. On May 28th, 2006, Mr. Nir Gilad was appointed as a Company Director. On August 31st, 2006, Messrs. Ben Rabinovitz, an outside director, and Adv. Muhammad Dahleh will cease to serve as Company Directors. A Shareholders' meeting whose agenda includes the appointment of Prof. Yair Orgler as an outside director of the Company, reappointment of Mr. Yaacov Dior as outside director of the Company for an additional term and appointment of Mr. Victor Medina as a Company Director is scheduled to take place on September 5th, 2006.

9.2 On March 27, 2006 the Board of Directors of the Company approved a incentive plan in which 700,000 ordinary shares of the Company were allotted to senior executives at the Company and at the companies under its control. The shares were allotted free of charge to a trustee, and are blocked for one year from the date of allotment.

9.3 On May 9, 2006, the Company distributed a dividend in the amount of approximately $90 million. On August 22, 2006 the Board of Directors approved a dividend of approximately $90 million, which will be distributed on September 19, 1006.

9.4 On July 6, 2006, a subsidiary of I.D.E. Technologies (Desalination Engineering) Ltd. ("IDE"), submitted a bid in a tender published by the Government of Israel, for the BOT design, financing, erection and operation of a desalination facility near Hadera, for the treatment of about 100 million cubic metres of sea water per year. The shareholders of the subsidiary are IDE and Housing and Construction Holdings Ltd., in equal parts. ICL holds 50% of IDE.

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 22, 2006

(---)	(---)
Akiva Mozes, CEO	Yossi Rosen Chairman of the Board