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

Israel Chemicals Ltd.
Consolidated
Financial Statements
(Unaudited)

As at June 30, 2006
(In U.S. Dollars)

Financial Statements as at June 30, 2006 (Unaudited)

Contents **Page**

Draft for discussion

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006 Israel

Telephone 972 3 684 8000
Fax 972 3 684 8444
Internet www.kpmg.co.il

The Board of Directors of
<u>Israel Chemicals Ltd.</u>

Dear Sirs,

Review of the unaudited interim consolidated financial statements as at June 30, 2006

At your request, we have reviewed the consolidated interim balance sheet of Israel Chemicals Ltd. (hereinafter – "the Company") and its subsidiaries as at June 30, 2006, and the consolidated interim statements of income, changes in shareholders' equity and cash flows for the six-month and three-month periods then ended.

Our review was performed in accordance with the procedures prescribed by the Institute of Certified Public Accountants in Israel. These procedures included, inter alia, reading the aforementioned financial statements, reading of minutes of meetings of shareholders, the Board of Directors and its committees and making inquiries of persons of Company officers responsible for financial and accounting matters.

We were furnished with the reports of other auditors regarding their review of the interim financial statements of consolidated subsidiaries, whose assets as at June 30, 2006 constitute approximately 5% of total consolidated assets included in the consolidated interim balance sheet and whose revenues constitute approximately 3% and 2% of the total consolidated revenues included in the consolidated interim statement of income for the six-month and three-month periods then ended, respectively. In addition, the data included in the financial statements regarding the net asset value of the investment in associated companies and the Company's share in the results of these companies, is based on financial statements that were reviewed by other auditors.

Since our review was limited in scope and did not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the abovementioned interim financial statements.

During our review, including perusal of the review reports of the other auditors referred to above, nothing came to our attention that indicated that significant changes should be made in the aforementioned statements in order for them to be considered as prepared in conformity with generally accepted accounting principles in Israel and Paragraph D of the Securities Regulations (Periodic and Immediate Reports), 1970.

As mentioned in Note 1(D), these financial statements are prepared in U.S. dollars.

Somekh Chaikin
Certified Public Accountants (Isr.)

August 22, 2006

Consolidated Balance Sheets

	June 30 2006 (Unaudited) US$ thousands	June 30 2005 (Unaudited) US$ thousands	December 31 2005 (Audited) US$ thousands
Current assets			
Cash and cash equivalents	**66,751**	46,704	57,236
Short-term investments, deposits and loans	**51,707**	92,313	58,767
Trade receivables	**456,051**	396,356	503,446
Other receivables	**151,383**	114,729	115,382
Inventories	**749,273**	532,367	652,521
	1,475,165	1,182,469	1,387,352
Long-term investments, loans and receivables			
Associated companies	**28,527**	17,617	24,775
Long-term deposits and receivables	**28,435**	29,856	22,622
Inventories – non-current	**30,061**	32,860	28,840
Deferrred taxes, net	**6,178**	16,127	5,541
Receivables from the minority interest	**10,560**	3,640	7,519
	103,761	100,100	89,297
Property, plant and equipment			
Cost	**4,646,278**	4,343,695	4,519,957
Less – accumulated depreciation	**2,971,193**	2,776,158	2,858,021
	1,675,085	1,567,537	1,661,936
Other assets and deferred expenses less accumulated amortization	**182,012**	126,085	185,357
	3,436,023	2,976,191	3,323,942

	As at June 30 2006	As at June 30 2005	As at December 31 2005
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Current liabilities			
Credit from banks and others	**251,217**	199,819	239,284
Trade payables	**280,078**	255,769	288,772
Other payables	**338,546**	309,048	369,074
	869,841	764,636	897,130
Long-term liabilities			
Loans from banks and others	**374,013**	294,854	376,147
Debentures	**125,000**	125,000	125,000
Provision for reclamation of mines and disposal of waste	**22,701**	27,695	21,375
Deferred taxes, net	**169,177**	195,386	169,351
Liability for employee severance and other post employment benefits, net	**233,287**	229,520	234,448
	924,178	872,455	926,321
Minority interest	**8,744**	8,720	7,747
Debentures convertible into shares	**-**	327	-
Shareholders' equity	**1,633,260**	1,330,053	1,492,744
	3,436,023	2,976,191	3,323,942

----	----	----
Yossi Rosen Chairman of the Board of Directors	Akiva Mozes President and Chief Executive Officer	Avi Doitchman Chief Financial Officer

Date of approval of financial statements: August 22, 2006

The notes to the financial statements are an integral part thereof.

Consolidated Statements of Income

	For the six month period ended		For the three month period ended		For the year ended
	June 30 2006	June 30 2005	June 30 2006	June 30 2005	December 31 2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Sales	**1,564,221**	1,483,967	**847,265**	773,926	2,986,001
Cost of sales	**1,015,286**	908,806	**567,937**	477,783	1,845,348
Gross profit	**548,935**	575,161	**279,328**	296,143	1,140,653
Expenses					
Research and development, net	**16,960**	15,505	**8,528**	7,498	30,277
Selling, transportation and marketing	**211,667**	225,861	**114,277**	120,006	443,294
General and administrative	**59,933**	52,111	**32,181**	26,390	105,753
	288,560	293,477	**154,986**	153,894	579,324
Operating income	**260,375**	281,684	**124,342**	142,249	561,329
Financing expenses (incomes), net	**18,523**	(1,183)	**12,479**	(3,518)	10,237
Income before other expenses (income), net	**241,852**	282,867	**111,863**	145,767	551,092
Other expenses (income), net	**(3,096)**	168	**(1,868)**	209	36,820
Income before taxes on income	**244,948**	282,699	**113,731**	145,558	514,272
Taxes on income	**62,797**	86,805	**25,563**	44,230	101,838
Income after taxes on income	**182,151**	195,894	**88,168**	101,328	412,434
Share in profits of associated companies, net	**2,043**	297	**1,124**	113	605
Minority interest in losses (income) of subsidiaries,net	**4,720**	325	**3,011**	(266)	9,134
Net income	**188,914**	196,516	**92,303**	101,175	422,173
Earnings per share	**US$**	**US$**	**US$**	**US$**	**US$**
Basic earnings per ordinary share	**0.147**	*0.157	**0.072**	*0.080	*0.336
Fully diluted earnings per ordinary share	**0.147**	*0.154	**0.072**	*0.079	*0.331

* Restated – see Note 1(C)(2).

The notes to the financial statements are an integral part thereof.

Statements of Changes in Shareholders' Equity

	Share capital	Premium on shares	Capital reserve	Differences from translation of financial statements of investees	Retained earnings	Dividend declared after the balance sheet date	Cost of Company shares held by a subsidiary	Total
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Six month period ended June 30, 2006								
Balance as at December 31, 2005	536,081	66,326	1,110	(6,082)	809,820	89,816	(4,327)	1,492,744
Net income	-	-	-	-	**188,914**	-	-	**188,914**
Dividend paid	-	-	-	-	-	**(89,816)**	-	**(89,816)**
Dividend erosion	-	-	-	-	**(474)**	-	-	**(474)**
Dividend declared after balance sheet date	-	-	-	-	**(89,845)**	**89,845**	-	-
Exercise of options granted to employees	**4,516**	**14,663**	-	-	**(1,491)**	-	**2,130**	**19,818**
Allotment of shares to employees	**153**	**2,518**	-	-	-	-	-	**2,671**
Differences from translation of foreign currency financial statements of investees	-	-	-	**19,403**	-	-	-	**19,403**
Balance as at June 30, 2006	**540,750**	**83,507**	**1,110**	**13,321**	**906,924**	**89,845**	**(2,197)**	**1,633,260**
Six-month period ended June 30, 2005								
Balance as at december 31, 2004	529,031	34,719	1,110	43,670	538,330	35,712	(5,550)	1,177,022
Net income	-	-	-	-	196,516	-	-	196,516
Dividend paid	-	-	-	-	22	(35,712)	-	(35,690)
Dividend declared after the balance sheet date	-	-	-	-	(56,769)	56,769	-	-
Conversion of debentures into shares	6,994	31,333	-	-	-	-	-	38,327
Exercise of options granted to employees	-	-	-	-	(49)	-	307	258
Differences from translation of foreign currency financial statements of investees	-	-	-	(46,380)	-	-	-	(46,380)
Balance as at June 30, 2005	536,025	66,052	1,110	(2,710)	675,050	59,769	(5,243)	1,330,053

The notes to the financial statements are an integral part thereof.

Statements of Changes in Shareholders' Equity (cont'd)

	Share capital	Premium on shares	Capital reserve	Differences from translation of financial statements of investees	Retained earnings	Dividend declared after the balance sheet date	Cost of Company shares held by a subsidiary	Total
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Three month period ended June 30, 2006								
Balance as at March 31, 2006	539,744	78,217	1,110	(204)	905,239	-	(2,674)	1,521,432
Net income	-	-	-	-	**92,303**	-	-	**92,303**
Dividend erosion	-	-	-	-	**(474)**	-	-	**(474)**
Dividend declared after balance sheet date	-	-	-	-	**(89,845)**	**89,845**	-	-
Exercise of options granted to employees	**853**	**2,772**	-	-	**(299)**	-	**477**	**3,803**
Allotment of shares to employees	**153**	**2,518**	-	-	-	-	-	**2,671**
Differences from translation of foreign currency financial statements of investees	-	-	-	**13,525**	-	-	-	**13,525**
Balance as at June 30, 2006	**540,750**	**83,507**	**1,110**	**13,321**	**906,924**	**89,845**	**(2,197)**	**1,633,260**
Three-month period ended June 30, 2005								
Balance as at March 31, 2005	536,025	66,052	1,110	24,799	633,622	-	(5,243)	1,256,365
Net income	-	-	-	-	101,175	-	-	101,175
Dividend erosion	-	-	-	-	22	-	-	22
Dividend declared after the balance sheet date	-	-	-	-	(59,769)	59,769	-	-
Differences from translation of foreign currency financial statements of investees	-	-	-	(27,509)	-	-	-	(27,509)
Balance as at June 30, 2005	536,025	66,052	1,110	(2,710)	675,050	59,769	(5,243)	1,330,053

The notes to the financial statements are an integral part thereof.

Statements of Changes in Shareholders' Equity (cont'd)

	Share capital	Premium on shares	Capital reserve	Differences from translation of financial statements of subsidiaries	Retained earnings	Dividend declared after the balance sheet date	Cost of Company shares held by a subsidiary	Total
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Year ended December 31, 2005								
Balance as at December 31, 2004	529,031	34,719	1,110	43,670	538,330	35,712	(5,550)	1,177,022
Net income	-	-	-	-	422,173	-	-	422,173
Dividend paid	-	-	-	-	(59,712)	(35,712)	-	(95,424)
Dividend declared after the balance sheet date	-	-	-	-	(89,816)	89,816	-	-
Exercise of options granted to employees	-	-	-	-	(1,155)	-	1,223	68
Conversion of debentures into shares	7,050	31,607	-	-	-	-	-	38,657
Differences from translation of foreign currency financial statements of investees	-	-	-	(49,752)	-	-	-	(49,752)
Balance as at December 31, 2005	536,081	66,326	1,110	(6,082)	809,820	89,816	(4,327)	1,492,744

The notes to the financial statements are an integral part thereof.

Consolidated Statements of Cash Flows

	For the six month period ended		For the three month period ended		For the year ended
	June 30 2006	June 30 2005	June 30 2006	June 30 2005	December 31 2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Cash flows from operating activities					
Net income	**188,914**	196,516	**92,303**	101,175	422,173
Adjustments to reconcile net income to net cash flows from operating activities (a)	**(51,527)**	46,545	**414**	17,778	68,746
Net cash inflow generated by operating activities	**137,387**	243,061	**92,717**	118,953	490,919
Cash flows generated by investing activities					
Acquisition of property, plant and equipment	**(66,052)**	(77,882)	**(31,492)**	(35,357)	(155,424)
Investment grants received	**3,065**	2,884	**699**	823	7,664
Acquisition of newly consolidated companies and activities (b)	**(2,100)**	-	**-**	-	(273,283)
Acquisition of minority interest in subsidiaries	**-**	-	**-**	-	(130)
Other long-term investments	**(342)**	(3,843)	**320**	(1,893)	(4,439)
Acquisition of marketable securities and long-term deposits	**(566)**	(2,251)	**(143)**	(897)	(2,302)
Short-term deposits and loans, net	**4,241**	40,344	**(16,988)**	38,433	71,571
Acquisition of other assets and deferred expenses	**(1,959)**	(2,633)	**(1,409)**	(2,330)	(3,321)
Proceeds from disposal of property, plant and equipment	**1,189**	2,737	**868**	1,790	4,557
Proceeds from realization of marketable securities and long-term deposits	**3,295**	2,991	**1,817**	1,312	6,267
Net cash inflow (outflow) generated by investing activities	**(59,229)**	(37,653)	**(46,328)**	1,881	(348,840)
Cash flows generated by financing activities					
Proceeds from exercise of options granted to employees	**19,818**	258	**4,207**	-	992
Receipt of long-term loans and other long-term liabilities	**34,185**	235,010	**33,516**	17,088	460,655
Repayment of long-term loans and other long-term liabilities	**(67,494)**	(355,259)	**(42,471)**	(197,574)	(450,288)
Dividend to shareholders	**(90,290)**	(35,690)	**(90,290)**	(35,690)	(95,424)
Short-term credit from banks and others, net	**35,014**	(39,579)	**12,804**	(52,145)	(37,055)
Net cash outflow generated by financing activities	**(68,767)**	(195,260)	**(82,234)**	(268,321)	(121,120)
Translation differences on cash balances of subsidiaries operating independently	**124**	(646)	**224**	(366)	(925)
Increase (decrease) in cash and cash equivalents	**9,515**	9,502	**(35,621)**	(147,853)	20,034
Cash and cash equivalents at beginning of period	**57,236**	37,202	**102,372**	194,557	37,202
Cash and cash equivalents at end of period	**66,751**	46,704	**66,751**	46,704	57,236

The notes to the financial statements are an integral part thereof.

Consolidated Statements of Cash Flows

	For the six month period ended		For the three month period ended		For the year ended
	June 30 2006	June 30 2005	June 30 2006	June 30 2005	December 31 2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Appendix A – Adjustments to reconcile net income to net cash from operating activities:					
Revenues and expenses not affecting cash flows:					
Minority interest in gains (losses) of subsidiaries, net	**(4,720)**	(325)	**(3,011)**	266	(9,134)
Share in profits of associated companies, net	**(2,043)**	(297)	**(1,124)**	(113)	(605)
Dividend received from associated companies	**164**	20	**104**	-	20
Depreciation and amortization	**83,510**	82,777	**42,464**	41,907	166,010
Impairment of production Facilities	**-**	-	**-**	-	24,000
Deferred taxes, net	**(7,581)**	21,002	**(13,062)**	15,967	(997)
Increase (decerase) in liability for employee severance and other post employment benefits, net	**(7,851)**	497	**6,258**	(3,382)	7,224
Capital gains on disposal of property, plant and equipment, net	**(324)**	(667)	**(82)**	(390)	(966)
Exchange and linkage differences on (erosion of) principal of long-term loans and other liabilities, net	**1,174**	(3,538)	**4,465**	(2,575)	(2,388)
Erosion of principal (interest, exchange and linkage differences) of long-term deposits and receivables, net	**(1,330)**	1,257	**(1,557)**	1,020	965
Loss (gain) from marketable securities, net	**(121)**	42	**(110)**	56	27
Payroll expenses regarding allotment of shares to employees	**2,671**	-	**2,671**	-	-
Changes in operating assets and liabilities:					
Decrease (increase) in trade receivables	**56,210**	(14,459)	**(16,013)**	(14,957)	(77,519)
Decrease (increase) in other receivables	**(29,707)**	(15,506)	**1,478**	(5,298)	(4,052)
Decrease (increase) in Inventories	**(87,855)**	(32,439)	**3,015**	2,235	(89,001)
Increase (decrease) in trade payables	**(18,617)**	7,770	**(13,672)**	5,216	12,120
Increase (decrease) in other payables	**(35,512)**	(287)	**(11,237)**	(22,585)	48,235
Increase (decrease) in provision for reclamation of mines and disposal of waste	**405**	698	**(173)**	411	(5,193)
	(51,527)	46,545	**414**	17,778	68,746

The notes to the financial statements are an integral part thereof.

Consolidated Statements of Cash Flows

	For the six month period ended		For the three month period ended		For the year ended
	June 30 2006	June 30 2005	June 30 2006	June 30 2005	December 31 2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Appendix B – Acquisition of newly consolidated companies and activities:					
Working capital (excluding cash and cash equivalents)	-	-	-	-	(70,436)
Payables in respect of the purchase	**(2,100)**	-	-	-	2,100
Investment in associated company	-	-	-	-	(6,922)
Property, plant and Equipment	-	-	-	-	(131,409)
Other assets	-	-	-	-	(57,676)
Long-term liabilities	-	-	-	-	44
Goodwill	-	-	-	-	(8,984)
	(2,100)	-	-	-	(273,283)
Appendix C – Non-cash activity					
Conversion of debentures into shares	-	38,327	-	-	38,657

The notes to the financial statements are an integral part thereof.

Note 1 - Financial Reporting Principles and Accounting Policies

A. General

1. These interim financial statements have been prepared in accordance with generally accepted accounting principles applicable to the preparation of interim period financial statements in accordance with Standard No. 14 of the Israel Accounting Standards Institute and with Article 4 of the Securities Regulations (Immediate and Periodic Reports) 1970.

2. The accounting policies applied in the preparation of these financial statements are consistent with those applied in the audited financial statements as at December 31, 2005, except for that mentioned in Note C.

3. These financial statements have been prepared in an abridged form as at June 30, 2006 and for the six-month and three-month periods then ended. They should be read in conjunction with the annual financial statements as at December 31, 2005 and for the year then ended, and the notes related thereto.

B. Disclosure of the effect of new accounting standards in the period prior to their implementation

In July 2006 the Israel Accounting Standards Board published Accounting Standard No. 29, "Adoption of International Financial Reporting Standards ("IFRS")" (hereinafter – the Standard). The Standard provides that entities subject to the Securities Law – 1968 that are required to report according to the regulations of this law, are to prepare their financial statements for periods beginning as from January 2008 according to IFRS. The Standard permits early adoption as from financial statements published after July 31, 2006. The aforementioned does not apply to entities subject to Securities Regulations (Periodic and Immediate Reports of a Foreign Entity) – 2000, the financial statements of which are not prepared in accordance with Israeli GAAP. Furthermore, the Standard provides that entities that are not subject to the Securities Law – 1968 and not required to report according to the regulations of this law, are also permitted to prepare their financial statements according to IFRS as from financial statements published after July 31, 2006.

The initial implementation of IFRS will be effected in accordance with the implementation of IFRS 1, "The Initial Implementation of IFRS", for purposes of the transition.

In accordance with the Standard, the Company is required to include in a note to the annual financial statements for December 31, 2007, balance sheet data as at December 31, 2007 and statement of operations data for the year then ended, that have been prepared according to the recognition, measurement and presentation principles of IFRS.

The Company is examining the consequences of transition to IFRS, including the possibility of the early application thereof. Nonetheless, at this stage, the Company is unable to assess the impact of adoption of IFRS on its financial statements.

Note 1 - Financial Reporting Principles and Accounting Policies (cont'd)

C. First time application of new accounting standards

(1) Accounting Standard No. 20 (Revised) regarding the accounting treatment of goodwill and intangible assets when purchasing an investee company

As from January 1, 2006 the Company adopted Accounting Standard No. 20 (Revised), "The Accounting Treatment of Goodwill and Intangible Assets when Purchasing an Investee Company" (hereinafter – the Standard) of the Israel Accounting Standards Board. The Standard provides the accounting treatment of goodwill and intangible assets upon the acquisition of a subsidiary and an investee company that is not a subsidiary, including a company under joint control.

The principal changes provided in the Standard as compared with the principles presently applied are as follows: attribution of excess cost created upon the acquisition of an investment in an investee company also to identifiable intangible assets of the acquired company; distinction between intangible assets with a limited useful life and intangible assets with an unlimited useful life; immediate recognition of a gain on the date of acquisition in the amount of the negative goodwill created upon the acquisition after first being offset from intangible assets and non-monetary assets of the investee company; discontinuance of the systematic amortization of positive goodwill and intangible assets with an unlimited useful life; distinction between the goodwill of a subsidiary and investee company that is not a subsidiary for the purpose of examining impairment in value.

Goodwill amortization in the amount of $ 2 million, $ 1 million and $ 4 million were included in the financial statements for the six-month and three-month periods ended June 30, 2005, and for the year ended December 31, 2005, respectively.

(2) Accounting Standard No. 21 regarding earnings per share

As from January 1, 2006 the Company adopted Accounting Standard No. 21, "Earnings per Share (hereinafter – the Standard) of the Israel Accounting Standards Board. In accordance with the provisions of the Standard, the Company calculates basic earnings per share with respect to earnings or loss, and basic earnings per share with respect to earnings or loss from continuing operations, which is attributable to the ordinary shareholders. The basic earnings per share is calculated by dividing the earnings or loss attributable to the ordinary shareholders with the weighted average number of ordinary shares outstanding during the period. In order to calculate the diluted earnings per share the Company adjusts the earnings or loss attributable to the ordinary shareholders, and the weighted average number of outstanding ordinary shares, in respect of the effects of all the dilutive potential ordinary shares. The Company's share in the earnings of investee companies was calculated according to its portion of earnings per share of such investee companies multiplied by the number of shares held by the Company.

In accordance with the transitional provisions of the Standard, the comparative data regarding the earnings (loss) per share for prior periods were restated.
The effects of the initial implementation of the Standard amounted to an increase in the basic earnings per share in the amount of $ 0.004 and $ 0.002 and $ 0.007 for the six-month and three-month periods ended June 30, 2005, and for the year ended December 31, 2005, respectively, and an increase in the diluted earnings per share in the amount of $ 0.001 and $ 0.001 and $ 0.002 for the six-month and three-month periods ended June 30, 2005, and for the year ended December 31, 2005, respectively, as a result of taking into account dilutive potential ordinary shares.

Note 1 - Financial Reporting Principles and Accounting Policies (cont'd)

C. First time application of new accounting standards (cont'd)

(3) Accounting Standard No. 22 regarding financial instruments: disclosure and presentation

As from January 1, 2006 the Company adopted Accounting Standard No. 22, "Financial Instruments: Disclosure and Presentation" (hereinafter – the Standard) of the Israel Accounting Standards Board. The Standard provides rules for presenting financial instruments in the financial statements and specifies the proper disclosure required in respect thereto. Furthermore, the Standard provides the method for classifying financial instruments as financial liabilities and as shareholders' equity, for classifying the interest, dividends, losses and gains related to them and the circumstances for offsetting financial assets and financial liabilities, and it annuls Opinion 53, "The Accounting Treatment of Convertible Liabilities" and Opinion 48, "The Accounting Treatment of Options".

The Standard was adopted on a prospective basis. Accordingly, the comparative figures relating to the prior period were not restated. The initial implementation of the Standard did not have an effect on the Company's results of operations and financial position.

(4) Accounting Standard No. 24 regarding share-based payments

As from January 1, 2006 the Company adopted Accounting Standard No. 24, "Share-Based Payments" (hereinafter – the Standard) of the Israel Accounting Standards Board. In accordance with the provisions of the Standard, the Company recognizes share-based payment transactions in the financial statements, including transactions with employees or other parties that are settled by equity instruments, cash or other assets. Share-based payment transactions in which goods or services are received are recognized at their fair value.

With respect to transactions settled by equity instruments, the Standard applies to grants executed after March 15, 2005 that had not yet vested by January 1, 2006. Similarly, the Standard applies to changes in the terms of share-based payment transactions being settled by means of equity instruments that were executed after March 15, 2005, even if the changes in terms relate to grants that were executed before that date.
See Note 2(2) regarding the effect of implementation of the said Standard on the financial statements.

(5) Accounting Standard No. 25 regarding revenues

As from January 1, 2006 the Company adopted Accounting Standard No. 25, "Revenues" (hereinafter – the Standard) of the Israel Accounting Standards Board. The Standard relates to three types of transactions as follows: the selling of goods, the rendering of services and the use of the entity's assets by others, which generates interest, royalties and dividends, and provides the required accounting treatment (recognition, measurement, presentation and disclosure principles) for these three types of transactions.

A Clarification to this Standard was published by the Israel Accounting Standards Board in February 2006: Clarification No. 8 – "Reporting Revenues on a Gross or Net Basis". The Clarification provides that an entity acting as an agent or intermediary without bearing the risks and enjoying the rewards arising from the transaction will present its revenues on a net basis (as a profit or a commission). On the other hand, an entity acting as a principal supplier that bears the risks and enjoys the rewards arising from the transaction will present its revenues on a gross basis, and separately present the revenues and the related expenses.

The initial implementation of the Standard and its related Clarification, did not have an effect on the results of operations and financial position of the Company.

Note 1 - Financial Reporting Principles and Accounting Policies (cont'd)

D. Financial statements in US dollars

The Company and its Israeli subsidiaries maintain their current accounting records in nominal shekels and dollars using a multi-currency system. Since most of the Group's revenues are received in dollars and the principal raw materials and fixed assets are purchased in dollars, the dollar is the principal currency of the economic environment in which the Group operates ("the functional currency"). Accordingly, the dollar is the measurement and reporting currency in these financial statements. It should not be construed that the translated amounts actually represent or can be converted into dollars unless otherwise indicated in these statements.

Changes in the representative exchange rates of the U.S. dollar and the Consumer Price Index (CPI) are as follows:

	CPI	Representative exchange rate of the US$ to the NIS	Representative exchange rate of the US$ to the Euro
	%	%	%
During the six months ended June 30, 2006	**1.60**	**(3.50)**	**(6.90)**
During the six-months ended June 30, 2005	0.50	6.20	12.90
During the three months ended June 30, 2006	**1.00**	**(4.80)**	**(4.50)**
During the three months ended June 30, 2005	1.10	4.90	7.20
During the year ended December 31, 2005	2.40	6.80	15.29

Note 2 - Supplementary Information

(1) In the framework of agreements of the Company and subsidiaries of July 2004 regarding a securitization agreement for the sale of debts of customers to companies of the RaboBank International Group, debts of customers in the amount of $ 197 million were sold in cash as at balance sheet date (June 30, 2005 - $ 199 million, December 31, 2005 - $ 217 million).

The maximum amount of the monetary resources at the disposal of the purchasing companies for the purpose of purchasing debts of customers of the subsidiaries is $ 220 million, on a current basis, such that the amounts received from the customers whose debts were sold will be used to purchase new customer debts.

Note 2 - Supplementary Information (cont'd)

(2) On March 27, 2006 the Company's Board of Directors approved a compensation plan in the framework of which 700,000 shares can be allotted to senior executives of the Company and companies under its control. The shares can be allotted at no cost to a trustee in accordance with Section 102 of the Income Tax Ordinance (New Version) and the regulations enacted under it, and they are locked-up for one year from the date of the allotment.

In April 2006, 699,200 ordinary shares were allotted and issued in accordance with the aforementioned plan. Accordingly, the Company included in the second quarter an expense in respect of the said plan in the amount of $ 2.7 million before the related tax effect.

(3) In the current period, 20,830 thousand options (Series 1) were exercised into 20,830 thousand ordinary shares of the Company of a par value of NIS 1 each. As a result of the exercise of the options, the shareholders' equity of the Company increased by $ 19,715 thousand. Furthermore, 1,848 thousand options (Series 1) were exercised for shares that were held by a subsidiary.

(4) In March 2006 the Company's Board of Directors declared a dividend in the amount of $ 90 million which was paid on May 2006 (the net dividend, less the share of a subsidiary, is $ 89.8 million).

(5) On August 22, 2006, the Company's Board of Directors declared a dividend in the amount of $ 90 million (the net dividend, less the share of a subsidiary, amounts to $ 89.8 million). The dividend will be paid on September 19, 2006.

(6) The cost of sales includes revenue from an insurance company in the amount of $ 16 million, which was included in the first quarter and constitutes partial compensation for the loss of earnings and damages to property as a result of the floods in Sodom in 2004.

(7) See Note 19 of the annual financial statements for December 31, 2005 regarding contingent claims against the Company and its subsidiaries.

Note 3 - Business Segments

	Fertilizers				Industrial	Performance		Other		
	Potash	Phosphate	Eliminations	Total	Products	Products	Metallurgy	Operations	Eliminations	Consolidated
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	In thousands									
Six-month period ended June 30, 2006										
Sales to external parties	**324,429**	**232,564**	**-**	**556,993**	**462,750**	**490,556**	**34,870**	**19,052**	**-**	**1,564,221**
Inter-segment sales	**66,955**	**35,360**	**(19,567)**	**82,748**	**5,577**	**6,912**	**10,347**	**15,089**	**(120,673)**	**-**
Total sales	**391,384**	**267,924**	**(19,567)**	**639,741**	**468,327**	**497,468**	**45,217**	**34,141**	**(120,673)**	**1,564,221**
Operating income (loss)	**93,616**	**6,351**	**475**	**100,442**	**131,233**	**41,904**	**(16,010)**	**2,875**	**(69)**	**260,375**
Six-month period ended June 30, 2005										
Sales to external parties	482,436	242,480	-	724,916	375,598	312,315	46,722	24,416	-	1,483,967
Inter-segment sales	64,637	38,242	(18,298)	84,581	5,296	3,957	11,174	17,701	(122,709)	-
Total sales	547,073	280,722	(18,298)	809,497	380,894	316,272	57,896	42,117	(122,709)	1,483,967
Operating income	154,094	14,389	380	168,863	68,874	36,054	1,424	3,539	2,930	281,684
Three-month period ended June 30, 2006										
Sales to external parties	**180,719**	**137,584**	**-**	**318,303**	**245,867**	**250,588**	**21,257**	**11,250**	**-**	**847,265**
Inter-segment sales	**33,583**	**18,138**	**(11,387)**	**40,334**	**2,634**	**4,678**	**4,787**	**8,099**	**(60,532)**	**-**
Total sales	**214,302**	**155,722**	**(11,387)**	**358,637**	**248,501**	**255,266**	**26,044**	**19,349**	**(60,532)**	**847,265**
Operating income (loss)	**42,172**	**5,198**	**(858)**	**46,512**	**69,081**	**17,237**	**(10,550)**	**2,686**	**(624)**	**124,342**
Three-month period ended June 30, 2005										
Sales to external parties	245,445	139,922	-	385,367	194,175	160,172	21,778	12,434	-	773,926
Inter-segment sales	33,542	18,768	(9,576)	42,734	3,011	2,766	5,425	8,227	(62,163)	-
Total sales	278,987	158,690	(9,576)	428,101	197,186	162,938	27,203	20,661	(62,163)	773,926
Operating income	77,509	8,212	95	85,816	34,341	18,409	208	1,827	1,648	142,249

Notes to the Consolidated Financial Statements as at June 30, 2006 (Unaudited)

Note 3 - Business Segments (cont'd)

	Fertilizers				Industrial	Performance		Other		
	Potash	Phosphate	Eliminations	Total	Products	Products	Metallurgy	Operations	Eliminations	Consolidated
	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited
	In thousands									
Year ended December 31, 2005										
Sales to external parties	927,851	465,855	-	1,393,706	794,294	666,543	80,795	50,663	-	2,986,001
Inter-segment sales	136,273	82,700	(38,943)	180,030	11,181	10,445	22,035	36,865	(260,556)	-
Total sales	1,064,124	548,555	(38,943)	1,573,736	805,475	676,988	102,830	87,528	(260,556)	2,986,001
Operating income (loss)	333,645	15,441	(993)	348,093	153,899	55,006	(8,950)	7,466	5,815	561,329