

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

**Israel Chemicals Ltd.
Consolidated
Financial Statements
(Unaudited)**

**As at June 30, 2007
(In U.S. Dollars)**

Financial Statements as at June 30, 2007 (Unaudited)

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**The Board of Directors of
Israel Chemicals Ltd.**

Dear Sirs,

Review of the unaudited interim consolidated financial statements as at June 30, 2007

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, 2007, 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.

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

In the course of performing our review, nothing came to our attention that would indicate the need to make material modifications to the said financial statements, in order for them to be considered financial statements prepared in conformity with generally accepted accounting principles and in accordance with Section 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 21, 2007

Consolidated Balance Sheets

	June 30 2007 <u>(Unaudited)</u> <u>US\$ thousands</u>	June 30 2006 <u>(Unaudited)</u> <u>US\$ thousands</u>	December 31 2006 <u>(Audited)</u> <u>US\$ thousands</u>
Current assets			
Cash and cash equivalents	51,462	66,751	50,085
Short-term investments, deposits and loans	145,874	51,707	120,820
Trade receivables	554,010	456,051	470,569
Other receivables	148,079	* 138,340	*180,869
Inventories	780,190	* 735,047	*785,433
	<u>1,679,615</u>	<u>1,447,896</u>	<u>1,607,776</u>
Long-term investments, loans and receivables			
Associated companies	33,734	28,527	31,149
Long-term deposits and receivables	27,619	28,435	27,798
Inventories – non-current	31,282	30,061	33,865
Deferred income taxes, net	9,072	6,178	6,539
Receivables from the minority interest	10,245	10,560	17,011
	<u>111,952</u>	<u>103,761</u>	<u>116,362</u>
Property, plant and equipment			
Cost	4,781,287	* 4,641,734	* 4,672,829
Less – accumulated depreciation	3,076,217	* 2,960,032	* 2,983,875
	<u>1,705,070</u>	<u>1,681,702</u>	<u>1,688,954</u>
Other assets and deferred expenses, less accumulated Amortization	<u>196,304</u>	* 195,515	* 195,450
	<u>3,692,941</u>	<u>3,428,874</u>	<u>3,608,542</u>

* Restated – see Note 1(C).

	June 30 2007	June 30 2006	December 31 2006
	(Unaudited)	(Unaudited)	(Audited)
	US\$ thousands	US\$ thousands	US\$ thousands
Current liabilities			
Credit from banks and others	383,945	251,217	266,973
Trade payables	333,045	280,078	315,945
Other payables	349,173	338,546	371,348
	1,066,163	869,841	954,266
Long-term liabilities			
Loans from banks and others	426,787	374,013	358,391
Debentures	125,000	125,000	125,000
Provision for reclamation of mines and disposal of waste	35,320	22,701	24,989
Deferred income taxes, net	169,447	169,177	168,391
Liability for employee severance and other post-employment benefits, net	240,844	233,287	241,252
	997,398	924,178	918,023
Minority interest	10,571	8,744	9,476
Shareholders' equity	1,618,809	* 1,626,111	* 1,726,777
	3,692,941	3,428,874	3,608,542

Yossi Rosen
Chairman of the Board of
Directors

Akiva Mozes
Chief Executive Officer

Avi Doitchman
Chief Financial Officer

Date of approval of financial statements: August 21, 2007

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
	June 30	June 30	June 30	June 30	year ended
	2007	2006	2007	2006	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	2006
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	(Audited)
Sales	1,845,827	1,564,221	962,867	847,265	3,258,161
Cost of sales	1,191,993	* 1,025,423	613,850	* 574,127	* 2,104,935
Gross profit	653,834	538,798	349,017	273,138	1,153,226
Expenses					
Research and development, net	18,329	16,960	8,778	8,528	35,093
Selling, transportation and marketing	259,154	* 201,530	136,174	* 108,087	* 456,688
General and administrative	71,066	59,933	36,818	32,181	125,000
	348,549	278,423	181,770	148,796	616,781
Operating income	305,285	260,375	167,247	124,342	536,445
Financing expenses, net	14,879	18,523	4,422	12,479	39,250
Income before other expenses (income), net	290,406	241,852	162,825	111,863	497,195
Other expenses (income), net	2,774	(3,096)	(1,594)	(1,868)	2,294
Income before taxes on income	287,632	244,948	164,419	113,731	494,901
Taxes on income	72,943	62,797	42,692	25,563	136,686
Income after taxes on income	214,689	182,151	121,727	88,168	358,215
Share in profits of associated companies, net	1,973	2,043	965	1,124	3,843
Minority interest in losses of subsidiaries, net	4,570	4,720	3,157	3,011	11,845
Net income	221,232	188,914	125,849	92,303	373,903
Earnings per share	US\$	US\$	US\$	US\$	US\$
Basic and diluted earnings per ordinary share	0.172	0.147	0.098	0.072	0.291

* Reclassified.

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 subsidiaries	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, 2007								
Balance as at December 31, 2006	540,779	81,396	2,127	18,728	* 802,533	283,411	(2,197)	1,726,777
Initial implementation of Accounting Standard No. 27 as at January 1, 2007 **	-	-	-	-	4,242	-	-	4,242
Net income	-	-	-	-	221,232	-	-	221,232
Dividend paid	-	-	-	-	(66,653)	(283,411)	-	(350,064)
Erosion of dividend	-	-	-	-	(961)	-	-	(961)
Dividend declared after balance sheet date	-	-	-	-	(87,943)	87,943	-	-
Issuance of options to employees	-	-	3,573	-	-	-	-	3,573
Tax benefits in respect of options to Employees	-	-	687	-	-	-	-	687
Differences from translation of financial statements of subsidiaries	-	-	-	13,323	-	-	-	13,323
Balance as at June 30, 2007	540,779	81,396	6,387	32,051	872,450	87,943	(2,197)	1,618,809
Six month period ended June 30, 2006								
Balance as at December 31, 2005	536,081	66,326	1,110	(6,082)	* 802,671	89,816	(4,327)	1,485,595
Net income	-	-	-	-	188,914	-	-	188,914
Dividend paid	-	-	-	-	-	(89,816)	-	(89,816)
Erosion of dividend	-	-	-	-	(474)	-	-	(474)
Dividend declared after balance sheet date	-	-	-	-	(89,845)	89,845	-	-
Exercise of options granted to employees	4,516	12,603	-	-	-	-	2,130	19,249
Tax benefits in respect of options to Employees	-	-	569	-	-	-	-	569
Allotment of shares to employees	153	2,518	-	-	-	-	-	2,671
Differences from translation of financial statements of subsidiaries	-	-	-	19,403	-	-	-	19,403
Balance as at June 30, 2006	540,750	81,447	1,679	13,321	901,266	89,845	(2,197)	1,626,111

* Restated – see Note 1(C).

** See Note 1(C)2.

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
	(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, 2007								
Balance as at March 31, 2007	540,779	81,396	2,979	24,966	835,505	66,653	(2,197)	1,550,081
Net income	-	-	-	-	125,849	-	-	125,849
Dividend paid	-	-	-	-	-	(66,653)	-	(66,653)
Erosion of dividend	-	-	-	-	(961)	-	-	(961)
Dividend declared after balance sheet date	-	-	-	-	(87,943)	87,943	-	-
Issuance of options to employees	-	-	2,732	-	-	-	-	2,732
Tax benefits in respect of options to employees	-	-	676	-	-	-	-	676
Differences from translation of financial statements of subsidiaries	-	-	-	7,085	-	-	-	7,085
Balance as at June 30, 2007	540,779	81,396	6,387	32,051	872,450	87,943	(2,197)	1,618,809
Three month period ended June 30, 2006								
Balance as at March 31, 2006	539,744	* 76,622	* 1,513	(204)	* 899,282	-	(2,674)	1,514,283
Net income	-	-	-	-	92,303	-	-	92,303
Erosion of dividend	-	-	-	-	(474)	-	-	(474)
Dividend declared after balance sheet date	-	-	-	-	(89,845)	89,845	-	-
Exercise of options granted to employees	853	2,307	-	-	-	-	477	3,637
Tax benefits in respect of options to employees	-	-	166	-	-	-	-	166
Allotment of shares to employees	153	2,518	-	-	-	-	-	2,671
Differences from translation of financial statements of subsidiaries	-	-	-	13,525	-	-	-	13,525
Balance as at June 30, 2006	540,750	81,447	1,679	13,321	901,266	89,845	(2,197)	1,626,111

* Restated – see Note 1(C).

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, 2006								
Balance as at December 31, 2005	536,081	66,326	1,110	(6,082)	* 802,671	89,816	(4,327)	1,485,595
Net income	-	-	-	-	373,903	-	-	373,903
Dividend paid	-	-	-	-	(89,845)	(89,816)	-	(179,661)
Erosion of dividend	-	-	-	-	(785)	-	-	(785)
Dividend declared after the balance sheet date	-	-	-	-	(283,411)	283,411	-	-
Exercise of options granted to employees	4,545	12,552	-	-	-	-	2,130	19,227
Allotment of shares to employees	153	2,518	-	-	-	-	-	2,671
Tax benefits in respect of options and shares to employees	-	-	1,017	-	-	-	-	1,017
Differences from translation of financial statements of subsidiaries	-	-	-	24,810	-	-	-	24,810
Balance as at December 31, 2006	540,779	81,396	2,127	18,728	802,533	283,411	(2,197)	1,726,777

* Restated – see Note 1(C).

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
	June 30	June 30	June 30	June 30	year ended
	2007	2006	2007	2006	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	2006
US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	(Audited)	
US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	
Cash flows from operating activities					
Net income	221,232	188,914	125,849	92,303	373,903
Adjustments to reconcile net income to net cash flows from operating activities (A)	47,864	(48,621)	56,567	1,836	(15,265)
Net cash inflow generated by operating activities	269,096	140,293	182,416	94,139	358,638
Cash flows generated by investing activities					
Acquisition of property, plant and equipment	(85,980)	*(65,937)	(26,349)	*(32,543)	*(144,067)
Investment grant received, net	36	3,065	24	699	3,070
Acquisition of newly consolidated companies and activities (B)	-	(2,100)	-	-	(2,100)
Proceeds from disposal of previously consolidated subsidiaries (C)	-	-	-	-	4,768
Other long-term investments	624	(342)	624	320	(996)
Acquisition of marketable securities and long-term deposits	(1,413)	(566)	(1,180)	(143)	(1,096)
Short-term deposits and loans, net	(24,261)	4,241	(61,868)	(16,988)	(64,525)
Acquisition of other assets and deferred expenses	(7,564)	*(4,980)	(5,168)	*(1,780)	*(14,143)
Proceeds from disposal of property, plant and equipment	902	1,189	230	868	9,442
Proceeds from realization of marketable securities and long-term deposits	1,627	3,295	768	1,817	4,732
Net cash outflow generated by investing activities	(116,029)	(62,135)	(92,919)	(47,750)	(204,915)
Cash flows generated by financing activities					
Proceeds from exercise of options granted to employees	-	19,818	-	4,207	20,242
Receipt of long-term loans and other long-term liabilities	205,012	34,185	108,238	33,516	51,466
Repayment of long-term loans and other long-term liabilities	(106,766)	(67,494)	(47,610)	(42,471)	(164,205)
Dividend to shareholders	(350,064)	(90,290)	(350,064)	(90,290)	(180,446)
Short-term credit from banks and others, net	100,065	35,014	112,257	12,804	111,635
Net cash outflow generated by financing activities	(151,753)	(68,767)	(177,179)	(82,234)	(161,308)
Translation differences on cash balances of subsidiaries operating independently	63	124	12	224	434
Increase (decrease) in cash and cash equivalents	1,377	9,515	(87,670)	(35,621)	(7,151)
Cash and cash equivalents at beginning of period	50,085	57,236	139,132	102,372	57,236
Cash and cash equivalents at end of period	51,462	66,751	51,462	66,751	50,085

* Restated – see Note 1(C).

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
	June 30	June 30	June 30	June 30	year ended
	2007	2006	2007	2006	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	2006
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	(Audited)
					US\$ thousands
Appendix A - Adjustments to reconcile net income to net cash from operating activities:					
<u>Revenues and expenses not affecting cash flows:</u>					
Minority interest in losses of subsidiaries, net	(4,570)	(4,720)	(3,157)	(3,011)	(11,845)
Share in profits of associated companies, net	(1,874)	(1,879)	(966)	(1,020)	(2,791)
Depreciation and amortization	94,307	*86,427	48,725	*43,717	*174,521
Deferred income taxes, net	2,638	(7,581)	2,987	(13,062)	(21,281)
Increase (decrease) in liability for employee severance and other post-employment benefits, net	(2,400)	(7,851)	(2,823)	6,258	(3,360)
Capital gains on disposal of property, plant and equipment, net	(85)	(324)	(74)	(82)	(5,347)
Capital loss from realization of investment in subsidiaries (C)	-	-	-	-	3,249
Exchange and linkage differences on principal of long-term loans and other liabilities, net	(143)	1,174	(2,156)	4,465	217
Interest, exchange and linkage differences on long-term deposits and receivables, net	(340)	(1,330)	111	(1,557)	(2,981)
Gain from marketable securities, net	(117)	(121)	(25)	(110)	(280)
Compensation expenses regarding allotment of shares to employees	-	2,671	-	2,671	2,671
Compensation expenses regarding granting of options to employees	4,260	-	3,419	-	-
<u>Changes in operating assets and liabilities:</u>					
Decrease (increase) in trade receivables	(79,934)	56,210	4,501	(16,013)	42,144
Decrease (increase) in other receivables	29,551	*(30,136)	(1,178)	*1,710	*(57,906)
Decrease (increase) in inventories	17,780	*(87,437)	18,294	*2,952	*(136,721)
Increase (decrease) in trade payables	17,017	(18,617)	24,772	(13,672)	8,382
Decrease in other payables	(30,549)	(35,512)	(30,745)	(11,237)	(5,792)
Increase (decrease) in provision for reclamation of mines and disposal of waste	2,323	405	(5,118)	(173)	1,855
	47,864	(48,621)	56,567	1,836	(15,265)

* Restated – see Note 1(C).

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
	June 30	June 30	June 30	June 30	year ended
	2007	2006	2007	2006	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	2006
US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	(Audited)	
US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	
Appendix B – Acquisition of newly consolidated companies and activities:					
Payables in respect of the acquisition	-	(2,100)	-	-	(2,100)
Property, plant and equipment	-	3,080	-	-	3,080
Goodwill	-	(3,080)	-	-	(3,080)
	-	(2,100)	-	-	(2,100)
Appendix C – Proceeds from disposal of previously consolidated subsidiaries					
Working capital (excluding cash and cash equivalents)	-	-	-	-	3,022
Property, plant and equipment, net	-	-	-	-	* 1,210
Other assets	-	-	-	-	* 3,785
Capital loss on realization of investments in subsidiary	-	-	-	-	(3,249)
	-	-	-	-	4,768

* Restated – see Note 1(C).

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

Notes to the Consolidated Financial Statements as at June 30, 2007 (Unaudited)

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, 2006, except for that mentioned in Note 1(C).
3. These financial statements have been prepared in an abridged form as at June 30, 2007 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, 2006 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 will apply International Financial Reporting standards (IFRS) commencing with the financial statements for the period beginning January 1, 2008.

Notes to the Consolidated Financial Statements as at June 30, 2007 (Unaudited)

Note 1 - Financial Reporting Principles and Accounting Policies (cont'd)**C. First time application of accounting standards**

- (1) As from January 1, 2007, the Company implements Accounting Standard No. 26, "Inventory" (hereinafter – the Standard) of the Israel Accounting Standards Board. The Standard applies to all types of inventory, other than inventory of work in process subject to Accounting Standard No. 4, "Work Executed by Contract", inventory of buildings held for sale subject to Accounting Standard No. 2, "Construction of Buildings for Sale" and financial instruments.

According to the provisions of the Standard, the Company measures inventory at the lower of cost or net realizable value. The cost of the inventory is determined on the basis of the "First-In – First-Out" (FIFO) method. The Standard also provides guidelines regarding the allocation of conversion costs to inventory and for determining impairment in value of inventory to net realizable value.

In accordance with the transitional provisions of the Standard, it is to be adopted retroactively by restating the comparative data relating to prior periods.

The effect on the balance sheet of the initial implementation of the aforementioned Standard is a decrease in the balance of inventory in the amount of \$ 14 million, an increase in the balance of fixed assets in the amount of \$ 8 million, an increase in the balance of deferred taxes in the amount of \$ 2 million and a decrease in retained earnings in the amount of \$ 4 million. The effect of the restatement on the statements of operations is immaterial.

- (2) As from January 1, 2007, the Company implements Accounting Standard No. 27, "Fixed Assets" (hereinafter – the Standard) of the Israel Accounting Standards Board. The Standard prescribes rules for the presentation, measurement and derecognition of fixed assets and for the disclosure required in respect thereto.

The principal changes provided by the Standard compared to the principles that were applied in the past are as follows: inclusion in the cost of the fixed asset item, already upon the initial recognition of the item, of the estimated amount of costs to be incurred in respect of a liability to dismantle and remove the item and to restore the site on which it is located; providing an alternative for measuring groups of similar fixed asset items at a revalued amount less accumulated depreciation, where the increase in the value of the asset above its initial cost as a result of the revaluation will be included directly in shareholders' equity as a revaluation reserve; separate depreciation of each component of the fixed asset item with a cost that is significant in relation to the total cost of the item, including costs of significant periodic examinations; measurement at fair value of fixed asset items acquired in exchange for another non-monetary item in a transaction having a commercial substance; requirement to examine the residual value, useful life and depreciation method of the asset, at least at the end of each fiscal year, and if the estimates are different than previous estimates, the change(s) will be treated as a change in accounting estimate.

Notes to the Consolidated Financial Statements as at June 30, 2007 (Unaudited)

Note 1 - Financial Reporting Principles and Accounting Policies (cont'd)**C. First time application of accounting standards (cont'd)**

(2) (cont'd)

In the past, upon the initial recognition of a fixed asset, the Company did not include in its cost the initial estimate of costs for dismantling and removing the item and for restoring the site on which it was located, and therefore:

- (a) It updated the said liability as at January 1, 2007 in accordance with generally accepted accounting principles, in the amount of \$ 7.8 million;
- (b) It calculated the amount that would have been included in the cost of the asset on the date on which the liability was initially incurred by capitalizing the amount of the liability mentioned in item (a) above to the date on which the liability was initially incurred (hereinafter – the capitalized amount) in the amount of \$ 13.3 million. The liability was capitalized using the best estimate of the historical capitalization rates suitable to the risk that was relevant to that liability during the expired period; and,
- (c) It calculated the accumulated depreciation on the capitalized amount as at January 1, 2007 on the basis of the useful life of the asset as at that date at the amount of \$ 1.3 million;
- (d) The difference between the amount that was charged to the asset in accordance with items (b) and (c) above, and the amount of the liability in accordance with item (a) above, in the amount of \$ 4.2 million, was included in retained earnings as at January 1, 2007.

In accordance with the transitional provisions of the Standard, the Standard will be adopted retroactively except for the recognition of the initial estimate of costs for dismantling and removing assets as aforementioned.

The effect of the initial implementation of the Standard as a result of implementing the components methods, with respect to the periodic maintenance expenses component, is a decrease in fixed assets in the amount of \$ 3 million and a decrease in retained earnings in the same amount. The effect of the restatement on the statements of operations is immaterial.

- (3) As from January 1, 2007, the Company implements Accounting Standard No. 30, "Intangible Assets" (hereinafter – the Standard) of the Israel Accounting Standards Board. The Standard explains the accounting treatment of intangible assets and defines how to measure the book value of these assets, as well as the disclosures that are required.

In accordance with the transitional provisions of the Standard, it is to be initially implemented retroactively, except as described below. As regards business combinations, the Standard is to be implemented with respect to business combinations that took place on January 1, 2007 or thereafter, whereas in respect of a research and development project in process that was acquired in a business combination that took place before January 1, 2007 and which meets the definition of an intangible asset on the date of acquisition and was recorded as an expense on the date of acquisition, the Company is to recognize the research and development project in process as an asset and make an allocation of taxes on January 1, 2007.

Notes to the Consolidated Financial Statements as at June 30, 2007 (Unaudited)

Note 1 - Financial Reporting Principles and Accounting Policies (cont'd)**C. First time application of accounting standards (cont'd)**

(3) (cont'd)

A research and development asset is to be recognized based on the amount estimated on the acquisition date less the amortization that would have been accrued if it had been amortized from the acquisition date up to December 31, 2006 in accordance with the asset's useful life and less accrued losses from decline in value. The adjusted amount is to be recorded to the balance of the retained earnings as at January 1, 2007.

As a result of the initial implementation of the Standard, the Company restated costs of computer software, which is not an integral part of the related hardware with a depreciated cost of about \$ 13.5 million as at June 30, 2006 and about \$ 13.6 million as at December 31, 2006, which were presented in the past as part of the "fixed assets" to "other assets".

- (4) As from January 1, 2007, the Company implements Accounting Standard No. 23, "The Accounting Treatment of Transactions between an Entity and its Controlling Shareholder" (hereinafter – the Standard) of the Israel Accounting Standards Board. The Standard replaces the Securities Regulations (Financial Statement Presentation of Transactions between a Company and its Controlling Shareholder) – 1996, and provides that assets and liabilities included in a transaction between the entity and its controlling shareholder shall be measured on the date of the transaction at fair value and that the difference between the fair value and the consideration from the transaction shall be included in shareholders' equity. A debit difference is actually a dividend and accordingly reduces the retained earnings. A credit difference is actually an investment of the shareholder and shall therefore be presented under a separate item of shareholders' equity called "capital reserve from transaction between an entity and its controlling shareholder".

The Standard discusses three issues relating to transactions between an entity and its controlling shareholder, as follows: the transfer of an asset to the entity by the controlling shareholder, or conversely, transfer of an asset from the entity to the controlling shareholder; the controlling shareholder assuming upon itself a liability of the entity to a third party, wholly or partially, indemnification of the entity by the controlling shareholder in respect of an expense, and the controlling shareholder waiving the entity's debt, wholly or partially; and loans that were granted to the controlling shareholder or loans that were received from the controlling shareholder. The Standard also details the disclosure to be made in financial statements regarding transactions between the entity and its controlling shareholder during the period.

In accordance with the transitional provisions of the Standard, the Company applied the Standard to transactions with a controlling shareholder that were executed after January 1, 2007 and to loans to the controlling shareholder or received from it before this Standard came into effect, as from the date of its coming into effect.

The initial implementation of the Standard did not have an effect on the Company's results of operations and financial position.

Notes to the Consolidated Financial Statements as at June 30, 2007 (Unaudited)**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, 2007	(2.7)	0.6	(2.1)
During the six months ended June 30, 2006	1.6	(3.5)	(6.9)
During the three months ended June 30, 2007	1.2	2.3	(0.9)
During the three months ended June 30, 2006	1.0	(4.8)	(4.5)
During the year ended December 31, 2006	(0.1)	(8.2)	(10.2)

Note 2 - Supplementary Information

- (1) In the framework of agreements of the Company and subsidiaries from 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 \$ 220 million were sold in cash as at balance sheet date (June 30, 2006 - \$ 197 million, December 31, 2006 - \$ 218 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.

Subsequent to the balance sheet date, on July 11, 2007, the said agreement was updated in such a manner that the maximum amount of the financial means available to the acquiring companies will be about \$ 300 million instead of \$ 220 million.

Notes to the Consolidated Financial Statements as at June 30, 2007 (Unaudited)

Note 2 - Supplementary Information (cont'd)

- (2) On January 28, 2007, (hereinafter – “the Effective Date”), the Company’s Board of Directors approved a plan for a private issuance, for no consideration, of 12.9 million options exercisable for Company shares, to a group of officers and other senior employees holding management positions with the Company and companies it controls, in and outside of Israel.

On January 28, 2007, 5.4 million options of the aforementioned plan were allotted, of which 2.2 million options were allotted to the CEO of the Company. On March 27, 2007, 6.4 million options of the aforementioned plan were allotted. The rest of the options of that plan that were not allotted expired at the end of the current period.

Upon exercise, each option may be exercised for one of the Company’s ordinary shares of NIS 1 par value. Immediately upon their issuance, the ordinary shares issued as a result of exercise of the options will have all the same rights as the Company’s ordinary shares. The options to be issued to the employees in Israel will be covered by Section 102 of the Income Tax Ordinance (New Version), and the regulations promulgated thereunder. The Company elected that the issuance shall be through a trustee under the “Capital Gains” alternative.

The options will vest in three equal portions as follows: one-third at the end of 12 months from the Effective Date, one-third at the end of 24 months from the Effective Date, and one-third at the end of 36 months from the Effective Date. Each portion will be locked-up for an additional year from its vesting. The expiration date of the options is at the end of 60 months from the Effective Date. In addition, rules have been provided for, in the case of termination of service or employment of any of the option holders. The exercise price was set at NIS 25.29 per share linked to the Consumer Price Index “known” on the payment date (the base index is the index for December 2006). In the case of distribution of a dividend by the Company, the exercise price will be reduced on the ex-dividend date in the (gross) amount of the dividend per share, based on the amount thereof in NIS on the Effective Date.

Alternatively, and based on the Company’s discretion, it may transfer or issue shares at the rate of the difference between the price per share on exercise date and the exercise price. The options are not marketable and may not be transferred.

The weighted-average value of each option on the eve of the Effective Date, computed using the Black and Scholes options-pricing model is NIS 6.43, based on the stock market price of one of the Company’s ordinary shares of NIS 1 par value, on the eve of the Effective Date - NIS 25.59.

The cost of the benefit inherent in the options allotted as aforementioned, on the basis of the fair value on the date they were granted, amounted to \$ 17.9 million. This amount will be recorded in the statements of income over the vesting period of each portion.

Accordingly, the Company included in the six-month period an expense in respect of the said plan in the amount of \$ 3,573 thousand (\$ 841 thousand in the first quarter).

Notes to the Consolidated Financial Statements as at June 30, 2007 (Unaudited)

Note 2 - Supplementary Information (cont'd)

- (3) On March 27, 2007, the Company's Board of Directors decided to distribute a dividend in the amount of \$ 283.9 million (the net dividend, less the share of a subsidiary, amounts to \$ 283.4 million). The dividend was paid on April 25, 2007.
- (4) On May 28, 2007, the Company's Board of Directors decided to distribute a dividend in the amount of \$ 66.8 million (the net dividend, less the share of a subsidiary, amounts to \$ 66.7 million). The dividend was paid on June 18, 2007.
- (5) Subsequent to balance sheet date, on August 21, 2007, the Company's Board of Directors decided to distribute a dividend in the amount of \$ 88.1 million (the net dividend, less the share of a subsidiary, amounts to \$ 87.9 million). The dividend will be distributed on September 18, 2007.
- (6) As from the reporting period, the Company no longer reports the metallurgy segment as an independent segment, since it no longer meets the definition of a reportable segment. The comparative figures in the business segments, as detailed in Note 3, hereinafter, were reclassified accordingly.
- (7) Pursuant to the Israeli Dead Sea Concession Law, 1961, as amended, including in 1986 (hereafter - "the Concession Law"), and a concession agreement that was granted, by which a subsidiary, Dead Sea Works Ltd. (hereafter - "DSW") is required to pay royalties to the State of Israel. On the basis of the Concession Law and the concession agreement, DSW granted a sub-concession to the Bromine Company to produce bromine and bromine compounds.

Over the past several years, examinations have been made on behalf of the Ministry of Industry, Trade and Labor in connection with the payment of royalties. The Company has not received a copy of the findings of the said examinations. The Accountant General in the Ministry of Finance contends, apparently, based on the examinations as alleged, that DSW underpaid royalties, allegedly amounting to "hundreds of millions of shekels" and the Accountant General seeks to make use of the arbitration clause in the Concession Indenture regarding the said underpayments. DSW is attempting to settle the matter by agreement with the State. If agreement, as stated, is not reached, the matter will be transferred to arbitration, all in accordance with the Concession Indenture. As at the approval date of the financial statements, resolution of the matter had not yet begun.

DSW, based, among other things, on a legal opinion, believes that the royalties paid were calculated as required by the above-mentioned concessions based on a calculation method that has been applied consistently for many years, even at the time it was wholly owned by the State, which was known to the State and regarding which there was no contest (prior to receipt of the aforesaid letters from the Accountant General) as to the proper calculation or payment of the royalties. It should be noted that payment of the royalties was examined many times in the past by the State, including by the State Auditor. Therefore, the Company believes that there is no basis for the demands and claims of the Accountant General and, accordingly, pursuant to that stated above, no provision has been recorded in the financial statements.

Notes to the Consolidated Financial Statements as at June 30, 2007 (Unaudited)

Note 2 - Supplementary Information (cont'd)

- (8) Further to that described in Note 18C4 to the Company's annual financial statements for 2006 in connection with the rise in the level of Pond 150, on May 13, 2007, the Government of Israel decided that the Ministry of Tourism is to coordinate the planning and implementation of the interim protections at the Dead Sea as part of and further to the activities in the intermediate stage, which relate to actions for preservation and maintenance of the shore and the hotels' section in the Dead Sea area, as well as completion of the feasibility studies of the alternatives for the long-term protective measures. For this purpose, and in order to create a budgetary framework, the Government announced that it will transfer NIS 200 million to the Ministry of Tourism. It was also decided to appoint a steering committee for the project, to appoint the Government Tourist Company as project manager and to ensure that those involved in the project will be able to obtain assistance by entities operating in the area. The Government also decided that the project to protect the Dead Sea will be defined as an infrastructure project having national importance under the Planning and Construction Law, 5725-1965, and that the Ministry of Tourism is to prepare a plan for a national infrastructure and is to submit it to the National Infrastructures Committee, for advancing the planning process. It was also decided that the Minister of Finance will determine by regulations the financing arrangements between the various parties for completion of the Dead Sea protective measures, including the manner of its budgeting.

In the petition submitted by the Israeli Hotel Association and the responses submitted in the framework thereof by the State, the Tamar Regional Council and the Company, the Government contended that the time is not yet ripe for addressing the financing issue (neither of additional temporary protective measures nor of the permanent solution). All the other parties, including the Company, expressed their opinion that the Government is responsible for financing these protective measures. Nonetheless, in a notice submitted by the State to the Supreme Court in August 2007, it argued that it is not responsible, or at least is not primarily responsible for the problem or its solution but, rather, a sort of "neighbors' quarrel" between DSW and the hotels is involved, although the State will continue trying to work toward a solution.

On August 13, 2007, the Supreme Court rendered a decision whereby the State's position that it is merely acting gratuitously is not to be accepted. The Court noted that DSW, the Regional Council and the hotels, are to act to resolve the problem. From an operative standpoint, the Court ordered the State to file within 60 days an updated timetable, including an organizational structure, as well as to establish a management body having persons who will deal solely with this matter.

On August 12, 2007, the Government of Israel decided, as part of the Economic Plan (Arrangements Law), that the Minister of Finance is to enter into negotiations with the Tamar Regional Council, the hotels in the Ein Bokek-Hamei Zohar complex, and Dead Sea Works, for purposes of determining the allocation between the parties of the cost of handling the damages caused by the rising water level in the Dead Sea area, and of performing the required examinations in order to analyze the alternatives for a permanent solution ("the costs"). It was also decided to amend the Arrangements Law in the Economy of 2002 so that it will provide an allocation of financing the costs to each of the parties to the negotiations. Should the parties fail to reach an agreement by September 10, 2007, in respect of the share of each party in the financing, the Government decided to impose on the Minister of Finance to bring a proposed resolution for the Government's approval regarding allocation of financing the costs that will then be included in the Arrangements Law, as stated.

Notes to the Consolidated Financial Statements as at June 30, 2007 (Unaudited)

Note 2 - Supplementary Information (cont'd)

(8) (cont'd)

The Company, based on the opinion of its legal counsel, believes, that it bears no legal responsibility to finance the protective measures.

Regarding the permanent solution – there are a number of alternative solutions, each of which having advantages and disadvantages as well as different costs. As at the approval date of the financial statements, feasibility studies had not been performed for the Pond itself and for the surrounding area in order to provide data for purposes of choosing a solution and estimating the costs and, therefore, it is not possible to know which permanent solution alternative will be chosen and how much it will cost. In addition, it has not yet been decided who is to bear the costs and in what proportion, while DSW is of the opinion that it is not obligated to bear the said expenses. Accordingly, the Company is unable to provide an estimate of the cost it will bear, if any, in connection with the permanent solution.

(9) Subsequent to the balance sheet date, in August 2007, a subsidiary acquired 100% of the shares of Supresta LLC (hereafter – “Supresta”), a company registered in Delaware in the United States, which is engaged in the manufacture and marketing of flame retardants as well as additional products on the basis of phosphorus.

The consideration for the acquisition amounted to \$ 353 million. The said consideration is subject to adjustments, mainly relating to changes in the working capital.

Supresta is the world's leading company in the manufacture and marketing of flame-retardant products on the basis of phosphorus, and employs 300 persons. Supresta owns two plants in the United States and in Germany. Supresta sells more than 80 phosphorus-based products used as flame retardants.

(10) Subsequent to the balance sheet date, in August 2007, the Company entered into an agreement with a group of 17 banks from Europe, the United States and Israel, whereby the banks will provide credit to the Company in an aggregate amount of \$ 725 million. The loan principal bears interest at the rate of LIBOR + 0.45% and is repayable in one lump sum payment at the end of five years from the grant date of the loan. The new loan replaces, among other things, a similar loan taken out in 2005, in the amount of \$ 250 million, bearing interest at LIBOR + 0.6%, which was repaid early.

(11) See Note 18 of the annual financial statements as at December 31, 2006 regarding contingent claims against the Company and its subsidiaries.

Notes to the Consolidated Financial Statements as at June 30, 2007 (Unaudited)

Note 3 - Business Segments

	Fertilizers			Industrial Products	Performance Products	Other Operations	Eliminations	Consolidated	
	Potash Unaudited	Phosphate Unaudited	Eliminations Unaudited						Total Unaudited
				In thousands					
Six-month period ended June 30, 2007									
Sales to external parties	511,583	337,661	-	849,244	410,360	515,562	70,661	-	1,845,827
Inter-segment sales	67,782	37,888	(21,686)	83,984	2,612	11,883	10,196	(108,675)	-
Total sales	<u>579,365</u>	<u>375,549</u>	<u>(21,686)</u>	<u>933,228</u>	<u>412,972</u>	<u>527,445</u>	<u>80,857</u>	<u>(108,675)</u>	<u>1,845,827</u>
Operating income (loss)	<u>145,641</u>	<u>41,119</u>	<u>(401)</u>	<u>186,359</u>	<u>81,859</u>	<u>44,797</u>	<u>(7,340)</u>	<u>(390)</u>	<u>305,285</u>
Six-month period ended June 30, 2006									
Sales to external parties	324,429	* 239,677	-	564,106	462,750	490,556	* 46,809	-	1,564,221
Inter-segment sales	66,955	* 41,021	(19,567)	88,409	5,577	6,912	* 10,347	*(111,245)	-
Total sales	<u>391,384</u>	<u>280,698</u>	<u>(19,567)</u>	<u>652,515</u>	<u>468,327</u>	<u>497,468</u>	<u>57,156</u>	<u>(111,245)</u>	<u>1,564,221</u>
Operating income (loss)	<u>93,616</u>	<u>* 7,881</u>	<u>475</u>	<u>101,972</u>	<u>131,233</u>	<u>41,904</u>	<u>*(11,605)</u>	<u>*(3,129)</u>	<u>260,375</u>

* Reclassified

Notes to the Consolidated Financial Statements as at June 30, 2007 (Unaudited)

Note 3 - Business Segments (cont'd)

	Fertilizers			Industrial Products	Performance Products	Other Operations	Eliminations	Consolidated	
	Potash	Phosphate	Eliminations						Total
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
	In thousands								
Three-month period ended June 30, 2007									
Sales to external parties	265,430	171,426	-	436,856	214,673	271,986	39,352	-	962,867
Inter-segment sales	38,087	19,758	(13,279)	44,566	1,357	6,375	5,350	(57,648)	-
Total sales	<u>303,517</u>	<u>191,184</u>	<u>(13,279)</u>	<u>481,422</u>	<u>216,030</u>	<u>278,361</u>	<u>44,702</u>	<u>(57,648)</u>	<u>962,867</u>
Operating income (loss)	<u>79,371</u>	<u>31,729</u>	<u>(523)</u>	<u>110,577</u>	<u>36,484</u>	<u>26,014</u>	<u>(5,552)</u>	<u>(276)</u>	<u>167,247</u>
Three-month period ended June 30, 2006									
Sales to external parties	180,719	* 141,118	-	321,837	245,867	250,588	* 28,973	-	847,265
Inter-segment sales	33,583	* 20,610	(11,387)	42,806	2,634	4,678	* 4,787	*(54,905)	-
Total sales	<u>214,302</u>	<u>161,728</u>	<u>(11,387)</u>	<u>364,643</u>	<u>248,501</u>	<u>255,266</u>	<u>33,760</u>	<u>(54,905)</u>	<u>847,265</u>
Operating income (loss)	<u>42,172</u>	<u>* 6,128</u>	<u>(858)</u>	<u>47,442</u>	<u>69,081</u>	<u>17,237</u>	<u>*(5,734)</u>	<u>*(3,684)</u>	<u>124,342</u>

* Reclassified

Notes to the Consolidated Financial Statements as at June 30, 2007 (Unaudited)

Note 3 - Business Segments (cont'd)

	Fertilizers			Industrial Products Audited	Performance Products Audited	Other Operations Audited	Eliminations Audited	Consolidated Audited	
	Potash Audited	Phosphate Audited	Eliminations Audited						Total Audited
				In thousands					
Year ended December 31, 2006									
Sales to external parties	791,361	* 518,480	-	1,309,841	827,329	1,011,047	* 109,944	-	3,258,161
Inter-segment sales	133,722	* 75,946	(39,934)	169,734	10,516	16,870	* 19,371	*(216,491)	-
Total sales	<u>925,083</u>	<u>594,426</u>	<u>(39,934)</u>	<u>1,479,575</u>	<u>837,845</u>	<u>1,027,917</u>	<u>129,315</u>	<u>(216,491)</u>	<u>3,258,161</u>
Operating income (loss)	<u>245,133</u>	<u>* 19,734</u>	<u>1,968</u>	<u>266,835</u>	<u>208,889</u>	<u>85,911</u>	<u>*(29,407)</u>	<u>4,217</u>	<u>536,445</u>

* Reclassified

