ICL-ISRAEL CHEMICALS LTD. כימיקלים לישראל בע"מ

Directors Report on the State of the Company's Affairs for the period ended June 30, 2008

The Directors' Report of Israel Chemicals Ltd. ("ICL" or "the Company") is presented for the period ended June 30, 2008.

1. Description of the Company and its Business Environment

1.1 Description of ICL

ICL is a multinational company that operates mainly in the areas of fertilizers and specialty chemicals, in three segments: fertilizers, industrial products and performance products.

ICL's operations are based primarily on natural resources: potash, bromine, magnesium and sodium chloride from the Dead Sea, and phosphate rock from the Negev Desert, based on concessions and licenses from the State of Israel. Operations are also based 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, production and marketing of downstream products based primarily on these raw materials or complementary to these products.

ICL has a prominent position in the markets for potash, bromine, pure phosphoric acid, special phosphates, bromine- and phosphorus-based flame retardants and chemicals used in wildfire retardants. Potash and phosphate are core components of fertilizers. Bromine is used in a wide range of applications, primarily as a basic ingredient in flame retardants. ICL's products are used primarily in agriculture, electronics, food products, oil and gas drilling, water purification and desalination, and in industries such as detergent, paper, cosmetics, pharmaceutical, automotive and aluminium and others. ICL has decades of accumulated experience in most of its businesses.

ICL 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 ICL 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 production costs of the potash and bromine that ICL extracts from the Dead Sea are relatively lower than the costs of other producers in the world that do not have access to the Dead Sea.

ICL's main production facilities are based in Israel, Germany, the USA, Holland, Spain, the UK, China, Brazil and France. ICL has other production facilities in Austria, Belgium, Turkey, Argentina and Australia.

ICL's operations outside of Israel are primarily in the production of products that are complimentary to or are based on ICL's operations in Israel or in related fields. Approximately 95% of all ICL's production is sold outside of Israel.

The operations of ICL's facilities are integrated with one another to a great extent, in terms of both supply of raw materials and such that one facility frequently utilizes the by-products of another facility to produce end products. (For example, bromine is produced by utilizing the bromine in the by-product streams from evaporation ponds used to produce potash. Another example is bromine production, which utilizes chlorine, a by-product stream in the production of magnesium, etc.)

Approximately 5% of ICL's production is sold in Israel. For specific products, ICL and some ICL companies have been declared a monopoly in Israel.

Approximately 64% of ICL's annual sales turnover is due to production outside of Israel.

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

ICL operates in three main segments, which are grouped according to managerial-functional consideration, as described below.

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. ICL Fertilizers also uses some of the potash to manufacture compound fertilizers.

ICL Fertilizers also mines and processes phosphate rock from open-pit mines in the Negev Desert, and manufactures sulfuric acid, fertilizer-grade phosphoric acid, phosphate fertilizers, compound fertilizers based mainly on potash and phosphate, and specialty fertilizers at its production facilities in Israel. ICL Fertilizers also manufactures fertilizers in Holland, Germany and Belgium. In addition ICL Fertilizers manufactures phosphate-based animal feed additives in Turkey and Israel. ICL Fertilizers markets its products worldwide, primarily in Europe, Brazil, India, China and Israel.

B. ICL Industrial Products – ICL Industrial Products manufactures elemental bromine from an end-brine that is created as a byproduct of the potash production process in Sodom as well as bromine-based compounds. ICL Industrial Products is the world's leading producer of elemental bromine, producing 27% of total global production in 2007. ICL Industrial Products uses approximately 70% of its bromine production for manufacturing bromine compounds at its production facilities in Israel, Holland and China. In August 2007, ICL Industrial Products acquired Supresta, a company that manufactures and markets phosphorus flame retardants and other phosphorus-based products in the USA and Germany.

Additionally, ICL Industrial Products produces various salt products, magnesia and chlorine (extracted together with caustic soda by electrolysis of salt, which is created as a byproduct of potash production, and which serves as a raw material in the segment's production processes).

ICL Industrial Products also manufactures chlorine-based industrial products in Israel and the USA. ICL Industrial Products markets its products worldwide.

C. ICL Performance Products – ICL Performance Products purifies some of the fertilizer-grade phosphoric acid manufactured by ICL Fertilizers, purchases pure phosphoric acid from other sources, and also manufactures thermal phosphoric acid. The pure phosphoric acid is used to produce downstream products of high added value, and is used as a raw material in the production of phosphate salt (which in turn is used as a raw material in the production of food additives), hygiene products, phosphorus derivatives and wildfire retardants. ICL Performance Products also produces specialty products based on aluminum oxide (alumina) and other raw materials. Production takes place at production facilities in Europe (especially in Germany), the USA and Brazil, Israel and China, as well as in other countries. In 2007, approximately 80% of the sales of ICL Performance Products were of phosphoric acid of various grades and of downstream products of the acid.

In addition to these segments, ICL has other operations that include desalination and metallurgy.

Management by segment is generally accomplished on a managerial-functional basis, even though administrative division and legal ownership do not necessarily fully correspond.

1.2 ICL's Business Environment and Profitability

ICL is a multinational company. The Company's financial results are affected by global economic trends, changes in terms of trade and financing, and fluctuations in currency exchange rates. The demand for ICL products is affected by the demand for basic agricultural products and global economic trends, among other factors.

Together with and as part of implementing its business strategy, ICL is taking steps towards adapting its marketing and production policies to global market conditions. ICL is focusing on

improving cash flow and diversifying financing sources and is committed to taking action to improve efficiency and cost savings.

Most of ICL's sales are denominated in foreign currency, mainly US dollars and euro. A not insignificant part of its operating expenses in Israel is denominated in shekels, therefore appreciation of the shekel against the dollar has a negative impact on ICL's profitability and depreciation has the opposite effect. The strengthening of the shekel against the dollar adversely affected ICL's operating profit and financing expenses in the period compared with the corresponding period last year, by an estimated $47.7 million and $35.2 million, respectively. ICL has more revenues than expenses in euro, therefore, an appreciation of the exchange rate of the euro against the dollar has a positive impact on ICL's profitability and depreciation has the opposite effect. Conversely, when the euro appreciates against the dollar, the ability to compete of ICL subsidiaries, whose functional currency is the euro, is adversely affected, compared with competitors whose functional currency is the dollar. ICL hedges against part of this exposure.

Most of ICL's loans bear variable interest rates, therefore, ICL is exposed to fluctuations in these rates. The Company partially hedges against this exposure by using financial hedging instruments, including financial derivatives. For details of the amounts that ICL hedges in order to reduce this exposure, see Section 7 below.

Conditions in the global agricultural market are closely connected with the demand for fertilizers. In recent years there has been a steady growth in worldwide consumption of cereals (such as grain, rice, soy and corn). The growth is due to the natural worldwide population growth and to a change in food consumption composition (higher meat consumption) as a result of the increase in the standard of living, primarily in developing countries. In addition, in view of the sharp increase in energy prices, environmental considerations and the objective of Western countries to reduce dependency on fuel importation, there is an increasing worldwide trend towards production of fuels from agricultural sources (bio-fuels). These trends have led to depletion of grain stocks to historically low levels. According to international publications, levels of grain stocks fell to 16.5% of annual consumption of these grains. The decrease in grain stocks has resulted in significant increases in sowing areas worldwide and increased yield per agricultural unit, mainly by more intensive application of fertilizers, and in higher prices of agricultural produce. Although the prices of agricultural commodities have been falling recently from their peak levels, demand is still strong and grain reserves are still relatively low.

The bromine market is largely affected by the level of activity in the electronics and the oil and gas drilling industries. Demand for flame retardants has risen as a result of rising demand in the electronics market and a decrease in the sales of the Chinese manufacturers caused by increasing prices of raw materials and energy and by difficulties in exporting from China. We are seeing a decrease in production of bromine and some flame retardants in China, resulting in an decrease in the supply of these products. In the market for chemicals used in oil drilling, sales were high due to increased drilling activity in all the regions where ICL Industrial Products sells its products.

The operations of ICL Performance Products are affected by competition in some of the target markets, and in Europe also by changes in the currency exchange rate. Since most of the raw materials used by ICL Performance Products are from the fertilizers field or are energy-intensive products, ICL Performance Products is affected by events in these markets. As stated above, appreciation of the euro against the dollar compared with the corresponding quarter last year had an adverse effect on the ability to compete in some production operations in Europe. However, during the reporting period, ICL Performance Products revenue was able to raise prices to compensate for the the price rises of its raw materials and inputs.

Shipping costs are a significant component in the expenses of ICL Fertilizers. At the beginning of 2007, bulk shipping prices rose sharply, reaching an all-time high. However, towards the end of the year shipping prices started to drop. During the first quarter, marine transportation prices dropped sharply, but during the second quarter prices rose once again.

The financial statements as at June 30, 2008 include the information and results of Supresta, Biogema, and the water treatment operations of Henkel. The results of these operations were not included in the financial statements of the corresponding period last year.

1.3 The Directors' Report is presented as part of the interim financial statements for the period ended June 30, 2008 and assumes that the interim financial statements are available to the reader. The Directors' Report was prepared in condensed format for the aforementioned period and assumes that the Periodic Report for 2007 is also available to the reader.

The financial data, including comparative information, were taken from the financial statements of ICL which were prepared according to International Financial Reporting Standards (IFRS) (see section 8.1 below).

2. Results of Operations

2.1 Principal Financial Results

Hereunder the condensed results of operations in the reviewed period, compared with the results for the corresponding period last year, in millions of dollars.

	1-6/2008		1-6/2007		4-6/2008		4-6/2007		2007	
	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales
Sales	3,607.9	100.0	1,846.0	100.0	2,079.8	100.0	963.1	100.0	4,103.2	100.0
Gross profit	1,877.7	52.0	658.8	35.7	1,147.2	55.2	358.1	37.2	1,547.0	37.7
Operating income	1,327.8	36.8	312.3	16.9	862.8	41.5	178.8	18.6	742.6	18.1
Pre-tax income	1,249.9	34.6	287.4	15.6	835.5	40.2	169.0	17.5	669.9	16.3
Net profit to Company share-holders	1,049.8	29.1	219.9	11.9	703.2	33.8	129.1	13.4	553.4	13.5
Cash flow from current operations	679.2		268.1		473.5		177.4		570.7	
EBITDA*	1,412.2	39.1	401.8	21.8	904.3	43.5	218.4	22.7	931.8	22.7
Investment in property, plant and equipment less grants	154.4		85.9		87.4		29.9		186.2	

(*) Calculated as follows, in millions of dollars:

	1-6/2008	1-6/2007	4-6/2008	4-6/2007	2007
Net income	1,049.8	219.9	703.2	129.1	553.4
Depreciation and amortization	89.9	79.7	45.8	35.4	166.1
Financing expenses, net	84.9	26.9	28.9	10.7	76.6
Taxes on income	187.6	72.1	126.4	43.2	119.7
Special or one-time expenses	-	3.2	-	-	16.0
Total	1,412.2	401.8	904.3	218.4	931.8

2.2 Results of operations for January – June 2008

Sales

Sales of ICL in the reporting period amounted to $3,607.9 million compared with $1,846.0 million in the corresponding period last year, an increase of 95.4%. The increase reflects mainly a rise in the selling prices of most of the Company's products, as well as an increase in quantities sold of potash and phosphate rock. Sales for the period include $149.3 million in Supresta sales.

Below is a breakdown of sales by geographical region:

	1-6/2008		1-6/2007		2007	
CIF sales	**$ millions**	**%**	**$ millions**	**%**	**$ millions**	**%**
Israel	184.1	5.1	115.6	6.3	244.5	5.9
North America	537.1	14.9	366.9	19.9	802.4	19.6
South America	569.0	15.8	210.7	11.4	514.7	12.5
Europe	1,437.9	39.8	726.3	39.3	1,532.6	37.4
Asia	740.1	20.5	365.7	19.8	868.9	21.2
Rest of the world	139.7	3.9	60.8	3.3	140.1	3.4
Total	3,607.9	100.0	1,846.0	100.0	4,103.2	100.0

The breakdown of sales shows a sharp increase in sales in all markets, and most notably in South America (170%), Asia (102%) and Europe (98%), due mainly to increased sales of ICL Fertilizers in these regions, principally as a result of price increases as well as the strengthening of the euro against the dollar in Europe.

Gross Profit

Gross profit amounted to $1,877.7 million, an increase of approximately $1,218.9 million compared with the corresponding period last year, representing an increase of 185%. The gross profit margin out of sales turnover for the year reached approximately 52%, compared with 35.7% in the corresponding period last year.

The improvement in gross profit compared with the corresponding period last year is due mainly to a rise in the selling prices of most of the Company's products and an increase in the sales volume of potash and phosphate rock. Conversely, an increase in most inputs, including raw materials and energy, and an increase in shekel expenses in dollar terms as a result of the strengthening of the shekel against the dollar, partially offset the improved profitability.

Sales and Marketing Expenses

Expenses for this item amounted to $416.0 million, an increase of $156.9 million compared with the corresponding period last year. The increase in these expenses is due to increased sales in the fertilizer segment, a rise in bulk shipping prices and the consolidation of companies acquired in the past year.

General and Administrative Expenses

Expenses for this item amounted to $105.2 million, an increase of about $35.4 million compared with the corresponding period last year. The strengthening of the euro and shekel against the dollar led to an increase in the expenses for this item in dollar terms. In addition, the administrative expenses of companies acquired subsequent to the end of the first half last year and consolidated in this quarter, contributed to the increase in these expenses.

Research and Development Expenses

R&D expenses (net of grants from the Chief Scientist) amounted to $29.6 million, an increase of $11.2 million compared with the corresponding period last year.

Operating Income

Operating income increased by $1,015.5 million compared with the corresponding period last year, reaching $1,327.8 million. The increase in operating income was due mainly to the increase in gross profit noted above, which was partially offset by the increase in overhead

expenses, due, inter alia, to the strengthening of the shekel against the dollar and to the increase in transportation expenses.

The percentage of operating income out of sales turnover is 36.8%, compared with 16.9% in the corresponding period last year. The improvement of the operating income margin is mainly due to the sharp increase in the sales price of potash, phosphate fertilizer and phosphate rock, as well as a significant improvement in the profitability of ICL Performance Products.

Financing Expenses

Net financing expenses amounted to $84.9 million, compared with $26.9 million last year, an increase of $58.0 million. Financing expenses for the period include an expense of about $50 million due to the effect of the strengthening euro against the dollar on shekel-denominated liabilities and severance liabilities. During the period, the shekel appreciated by approximately 13% against the dollar, compared with stability in the exchange rate in the corresponding period last year. The increase in financing expenses derives also from a rise of $370 million in the net average debt balance in the period, compared with the corresponding period last year.

In addition, according to IFRS, the Company charges the difference between the fair value of hedging instruments that do not comply with the terms of accounting hedging and the cost of these instruments in each accounting period, to financing expenses. The change in fair value of these instruments on June 30, 2008 compared to their value at the beginning of the year led to the accounting of an expense of $5 million. This value reflects the exchange rate on the date of the balance sheet and can change in the future according to changes in rates on the repayment date of the financial instruments (see section 7 below for further information). These impacts do not affect the cash flow of the Company.

Tax Expenses

The tax expense amounted to $187.6 million, compared with $72.1 million in the corresponding period last year. The tax rate on pre-tax profit is 15%, compared with 25.1% in the corresponding period last year. The lower tax rate is due to an increase in taxable income at a reduced rate for approved or benefited facilities for some of the Company's operations in Israel, and from the utilization of tax losses accrued by subsidiaries abroad and for which deferred taxes were not accounted in the past.

Net Income

Net income for the shareholders of the Company amounted to $1,049.8 million, compared with $219.9 million in the corresponding period last year, an increase of approximately $829.9 million.

2.3 Operating expenses for the period April – June 2008

Sales

Sales of the ICL Group in the quarter amounted to $2,079.8 million compared with $963.1 million in the corresponding period last year, an increase of116%. The increase reflects mainly an increase in income in the fertilizers segment, both as a result of larger volumes sold of potash and fertilizers, and of rising prices. ICL performance Products also increased its sales.

Below is a breakdown of sales by geographical region:

	4-6/2008		4-6/2007	
	$ millions	%	$ millions	%
Israel	107.7	5.2	63.6	6.6
North America	299.2	14.4	187.5	19.5
South America	398.5	19.2	143.1	14.9
Europe	774.2	37.2	349.8	36.3
Asia	442.5	21.3	196.1	20.4
Rest of the world	57.7	2.7	23.0	2.3
Total	2,079.8	100.0	963.1	100.0

The sharp increase in sales in South America, Europe and Asia is mainly the result of increased sales of potash and fertilizers, both in quantity and due to price rises. The improvement in the selling prices of ICL Performance Products also contributed to the ncrease in sales in Europe and America.

Sales in North America were also affected by the inclusion of the sales of Supresta, which was acquired in the second half of 2007.

Gross Profit

Gross profit amounted to $1,147.2 million, an increase of approximately $789.1 million compared with the corresponding quarter last year The gross profit margin out of sales turnover rose from 37.2% to 55.2% of turnover.

The increase in the margin is due mainly to higher quantities sold and higher selling prices of potash and fertilizers. The improvement was partially offset by an increase in most production input costs.

Sales and Marketing Expenses

Expenses for this item amounted to $220.7 million, an increase of 62.6% compared with the corresponding quarter last year, mainly as a result of increased sales of the fertilizers segment.

General and Administrative Expenses

Expenses for this item amounted to $49.4 million, an increase of about $13.5 million compared with the corresponding quarter last year, mainly due to the stronger shekesl against the dollar and the acquisition of companies consolidated for the first time.

Research and Development Expenses

R&D expenses (net of grants from the Chief Scientist) amounted to $15.7 million, an increase of $6. 6 million compared with the corresponding quarter last year.

Operating Income

Operating income in the quarter increased by $684.0 compared with last year, reaching $862.8 million, an increase of about 382.6%. Operating income out of sales turnover was 41.5%, compared with 18.6% last year.

Financing Expenses

Net financing expenses amounted to $28.9 million, compared with $10.7 million in the corresponding quarter last year.

The increase in financing expenses arose mainly from an expense of approximately $22 million due to the effects of the strengthening shekel against the dollar on shekel-denominated liabilities and on severance liabilities.

Tax Expenses

The tax expense in the quarter amounted to $126.4 million, which is approximately 15% of pre-tax profit, compared with $43.2 million and approximately 25.5% of pre-tax profit in the corresponding period last year.

The lower tax rate is due to an increase in taxable income at a reduced rate for approved or benefited facilities for some of the Company's operations in Israel, and from the utilization of tax losses accrued by subsidiaries abroad and for which deferred taxes were not accounted in the past.

Net Income

Net income for the shareholders of the Company amounted to $703.2 million, compared with $129.1 million in the corresponding period last year, an increase of approximately 445%.

3. Segments of Operation

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

CIF sales	1-6/2008		1-6/2007		4-6/2008		4-6/2007	
By segment of operation	**$ millions**	**% of sales**	**$ millions**	**% of sales**	**$ millions**	**% of sales**	**$ millions**	**% of sales**
ICL Fertilizers	2,302.7	62.4	933.5	49.8	1,349.9	63.4	481.7	49.4
ICL Industrial Products	651.0	17.7	412.7	22.0	361.4	17.0	216.0	22.1
ICL Performance Products	734.6	19.9	527.4	28.2	418.2	19.6	278.3	28.5
Others and offsets	(80.4)		(27.6)		(49.7)		(12.9)	
Total	**3,607.9**		**1,846.0**		**2,079.8**		**963.1**	

Note: The sales data for the segments and their percentages out of total sales are before setoffs of inter-segment sales.

Operating income	1-6/2008		1-6/2007		4-6/2008		4-6/2007	
By segment of operation	**$ millions**	**% of sales**	**$ millions**	**% of sales**	**$ millions**	**% of sales**	**$ millions**	**% of sales**
ICL Fertilizers	1,138.8	49.5	185.5	19.9	731.4	54.2	114.2	23.7
ICL Industrial Products	74.1	11.4	87.2	21.1	45.4	12.6	42.7	19.8
ICL Performance Products	117.3	16.0	47.6	9.0	81.5	19.5	27.8	10.0
Others and offsets	(2.4)		(8.0)		4.5		(5.9)	
Operating income (consolidated)	**1,327.8**		**312.3**		**862.8**		**178.8**	

Note: The percentage of operating income out of sales is before setoffs of inter-segment sales.

3.1 ICL Fertilizers

Sales

The sales turnover in the segment in the reporting period amounted to $2,302.7 million, an increase of about $1,369.2 million compared with the corresponding period last year, representing an increase of 146.7%

The increase in sales turnover is due mainly to a sharp rise in the sales prices of all segment products and an increase in the quantities of potash and phosphate rock sold.

Operating Income

Operating income in the segment amounted to $1,138.8 million, an increase of about $953.3 million compared with the corresponding period last year. The percentage of income from sales was approximately 49.5%, compared with 19.9% last year.

The improvement in operating income and in profit margins is mainly due to the sharp rise in selling prices. However, operating income was adversely affected by a rise in the prices of principal raw materials, especially sulfur, a rise in energy prices, and the appreciation of the shekel against the dollar.

Potash

Revenue from potash includes the sales of potash from Israel, Spain (Iberpotash) and England (Cleveland Potash).

Potash – Revenue and Profit

$ millions	1-6/2008	1-6/2007	4-6/2008	4-6/2007	2007
Revenues*	1,435.7	579.7	854.2	303.8	1,386.4
Operating income	768.0	143.6	487.5	81.3	405.6

*Including revenue from inter-segment sales.

The increase in revenue in the period compared with the corresponding period last year is due to a sharp rise in selling prices and the quantity of potash sold compared with the corresponding period last year.

Potash – Production and Sales

Thousands of tons	1-6/2008	1-6/2007	4-6/2008	4-6/2007	2007
Production	2,571	2,393	1,283	1,167	5,078
Sales to external customers	2,803	2,413	1,413	1,239	5,191
Sales to internal customers	151	122	88	72	264
Total sales (including internal sales)	2,954	2,535	1,501	1,311	5,455
Closing inventory	902	1,520	902	1,520	1,285

Potash production increased both in the quarter and in the half compared with last year, due mainly to increased production in Israel and the U.K.

Fertilizers and Phosphates

Revenues from these products derives from sales in Israel and abroad of phosphate rock (as a raw material and for direct fertilization), fertilizers (including phosphate, compound, liquid and fully soluble fertilizers, which include various proportions of nitrogen, phosphate and potassium), phosphoric acid used as a raw material for the production of fertilizers (green acid), as well as other products.

Fertilizers and Phosphates – Revenue and Profit

$ millions	1-6/2008	1-6/2007	4-6/2008	4-6/2007	2007
Revenues*	927.5	375.5	535.9	191.2	813.2
Operating income	376.9	42.3	244.5	33.3	123.0

*Including revenue from inter-segment sales.

The increase in sales in the period compared with the corresponding period last year is mainly due to the sharp rise in selling prices and the increased quantities sold of phosphate rock. The improvement in operating income is mainly the result of the rise in selling prices and quantities sold of phosphate rock, which was partially offset by the sharp rise in the prices of sulphur and of other production inputs, and the appreciation of the shekel against the dollar.

Fertilizers and Phosphates – Production and Sales

Thousands of tons	1-6/2008	1-6/2007	4-6/2008	4-6/2007	2007
Phosphate rock					
Rock production	1,580	1,493	833	765	3,069
Sales*	381	177	192	80	287
Fertilizers					
Production	918	861	462	463	1,771
Sales*	924	951	453	446	1,784

* To external customers.

Phosphate rock production is produced according to demand, both for internal uses and for sales to external customers. In the reporting period, due to increased demand and the resulting rise in the selling prices for phosphate rock, the Company increased sales to external customers.

3.2 ICL Industrial Products

Sales

In the reporting period, sales in this segment amounted to approximately $651.0 million, an increase of $238.3 million compared with the corresponding quarter last year.

Excluding the sales of Supresta, which was not consolidated in the corresponding period last year, sales in this segment increased by $89 million compared with the corresponding period last year.

Here are some details of sales in the period compared with the corresponding period last year,

Revenue from sales of flame retardants increased due to the increase in sales of bromine-based retardants, mainly due to weaker competition by producers in China in view of the increase in production costs of bromine in China.

Revenue from inorganic bromine products increased due to the increase in sales of elemental bromine and clear brine.

Revenue from biocides for water treatment increased mainly due to an increase in quantities sold.

Revenue from sales of chlorine-based products from the Dead Sea (Dead Sea salts) increased, mainly due to increased sales of bagged potash and magnesium chloride.

There was an increase in sales of magnesia products, mainly specialty magnesia, as a result of a rise in the selling prices.

In agricultural products, however, sales of methyl bromide decreased.

Operating Income

Operating income in the segment for the reporting period amounted to approximately $74.1 million, compared with $87.2 million in the corresponding period last year.

Notwithstanding the increase in the segment's sales in the reporting period, operating income decreased due to the appreciation of the shekel against the dollar which resulted in an increase in shekel expenses, a rise in the prices of energy and raw materials, and increased salary, maintenance and transportation expenses.

3.3 ICL Performance Products

Sales

Sales in this segment amounted to $734.6 million, an increase of approximately $207.1 million compared with the corresponding period last year.

The increase in revenues was mainly due to an increase in prices for phosphate-based products, initial consolidation of the water treatment business unit acquired from the Henkel Group at the beginning of the year, and the appreciation of the euro against the dollar.

Operating Income

Operating income in the segment amounted to $117.3 million in the reporting period, an improvement of about $69.7 million compared with the corresponding period last year. This increase was mainly due an increase in sales prices, which was partially offset by the increase in prices of raw materials and energy.

4. The Financial Position and Sources of Financing of ICL

At June 30, 2008, a decrease of $182 million in ICL's net financial liabilities was recorded, compared with the balance at the end of 2007, and they amount to $952 million.

ICL's sources of financing are short- and long-term loans from Israeli and international banks, debentures issued to institutional investors in the U.S., and unlisted short-term commercial papers issued from time to time, as well as a customer securitization activities in which some of the Group companies sell their customer debt for cash payment. The total size of the securitization transaction amounts to $300 million. At June 30, 2008, $166 million of the securitization was utilized.

Cash Flow

ICL's cash flow generated by operating activities in the reporting period amounted to $679.2 million, compared with $268.1 million in the corresponding period last year, an improvement of about $411 million. The cash flow from operating activities was the principal source of financing for investments in property, plant and equipment and in business), for payment of a dividend and for reducing net financial liabilities.

5. Investments

In the reporting period, investments in property, plant and equipment net of investment grants amounted to $154.4 million, compared to $85.9 million in the corresponding period last year.

6. Human Resources

The total number of employees at ICL on June 30, 2008 is 10,667, compared with 9,963 on June 30, 2007. The increase is mainly due to the increase at ICL Industrial Products following the acquisition of Supresta and the acquisition of another 25% of the share capital of Sinobrom (formerly proportionately consolidated), an increase at ICL Performance Products following the acquisition of the water treatment operations of Henkel, and the acquisition of Biogema, a manufacture of wildfire retardants. In addition, there was an increase in the number of employees at Mifalei Tovala due to the purchase of new trucks, and at IDE, due to new projects.

7. Market Risk Exposure and Management

The tables below describe sensitivity to changes in currency exchange rates for the balance sheet as at June 30, 2008.

Dollar/Shekel	Profit (loss) from changes $ millions	Profit (loss) from changes $ millions	Fair value $ millions	Profit (loss) from changes $ millions	Profit (loss) from changes $ millions
Type of instrument	**10% increase**	**5% increase**		**5% decrease**	**10% increase**
Cash and cash equivalents	(1.1)	(0.6)	12.5	0.7	1.4
Trade receivables and debit balances	(14.2)	(7.5)	156.6	8.2	17.4
Long-term deposits and loans	(11.1)	(5.8)	121.6	6.4	13.5
Credit from banks and others	12.4	6.5	(136.2)	(7.2)	(15.1)
Trade payables and others	18.0	9.4	(198.4)	(10.4)	(22.0)
Payables and credit balances	23.3	12.2	(256.1)	(13.5)	(28.5)
Liabilities for employee benefits	12.7	6.6	*(139.5)	(7.3)	(15.5)
Long-term bank loans	5.7	3.0	(62.4)	(3.3)	(6.9)
Options	(1.2)	(0.7)	1.0	0.9	2.1
Forward	(8.7)	(4.6)	5.3	5.0	10.6
Total	35.7	18.6	(495.6)	(20.5)	(43.1)

Euro/Dollar	Profit (loss) from changes $ millions	Profit (loss) from changes $ millions	Fair value $ millions	Profit (loss) from changes $ millions	Profit (loss) from changes $ millions
Type of instrument	**10% increase**	**5% increase**		**5% decrease**	**10% increase**
Cash and cash equivalents	(4.5)	(2.4)	49.8	2.6	5.5
Short-term deposits and loans	(7.6)	(4.0)	83.5	4.4	9.3
Trade receivables and debit balances	(69.6)	(36.5)	765.9	40.3	85.1
Long-term deposits and loans	(0.5)	(0.3)	6.0	0.3	0.7
Suppliers and others	18.3	9.6	(201.1)	(10.6)	(22.3)
Payables and credit balances	15.6	8.1	(171.1)	(9.0)	(19.0)
Liabilities for employee benefits	11.5	6.0	(126.3)	(6.6)	(14.0)
Long-term bank loans	`7.8	9.4	(197.0)	(10.4)	(21.9)
Forward	(11.1)	(5.8)	(5.1)	6.4	13.6
Options	(17.1)	(7.7)	(5.9)	8.0	16.7
Total	(47.3)	(23.5)	198.7	25.5	53.6

Sterling/Dollar	Profit (loss) from changes $ millions	Profit (loss) from changes $ millions	Fair value $ millions	Profit (loss) from changes $ millions	Profit (loss) from changes $ millions
Type of instrument	**10% increase**	**5% increase**		**5% decrease**	**10% increase**
Short-term deposits and loans	(1.9)	(1.0)	20.9	1.1	2.3
Trade receivables and debit balances	(6.9)	(3.6)	75.4	4.0	8.4
Suppliers and others	0.5	0.3	(5.5)	(0.3)	(0.6)
Trade payables and others	2.4	1.2	(25.9)	(1.4)	(2.9)
Liabilities for employee benefits	5.3	2.8	(58.4)	(3.1)	(6.5)
Total	(0.6)	(0.3)	6.5	0.3	0.7

Yen/Dollar	Profit (loss) from changes $ millions	Profit (loss) from changes $ millions	Fair value $ millions	Profit (loss) from changes $ millions	Profit (loss) from changes $ millions
Type of instrument	**10% increase**	**5% increase**		**5% decrease**	**10% increase**
Cash and cash equivalents	(0.5)	(0.3)	5.4	0.3	0.6
Short-term deposits and loans	(0.1)	0.0	0.9	0.0	0.1
Trade receivables and debit balances	(1.9)	(1.0)	20.8	1.1	2.3
Long-term deposits and loans	0.0	0.0	0.2	0.0	0.0
Credit from banks and others	0.1	0.1	(1.4)	(0.1)	(0.2)
Suppliers and others	0.3	0.1	(3.0)	(0.2)	(0.3)
Payables and credit balances	0.1	0.0	(0.6)	0.0	(0.1)
Liabilities for employee benefits	0.2	0.1	(1.8)	(0.1)	(0.2)
Forward	1.0	0.5	(0.2)	(0.6)	(1.3)
Options	0.8	0.3	0.1	(0.3)	(0.6)
Total	(0.1)	(0. 1)	20.4	0.2	0.4

Brazilian Real/Dollar	Profit (loss) from changes $ millions	Profit (loss) from changes $ millions	Fair value $ millions	Profit (loss) from changes $ millions	Profit (loss) from changes $ millions
Type of instrument	**10% increase**	**5% increase**		**5% decrease**	**10% increase**
Cash and cash equivalents	(0.2)	(0.1)	2.7	0.1	0.3
Trade receivables and debit balances	(0.9)	(0.5)	10.0	0.5	1.1
Other payables	0.3	0.2	(3.7)	(0.2)	(0.4)
Payables and credit balances	0.5	0.3	(5.6)	(0.3)	(0.6)
Total	(0.3)	(0.2)	3.4	0.2	0.4

Sensitivity to changes in LIBOR interest

	Profit (loss) from changes $ millions	Profit (loss) from changes $ millions	Fair value $ millions	Profit (loss) from changes $ millions	Profit (loss) from changes $ millions
Type of instrument	**10% increase**	**5% increase**		**5% decrease**	**10% increase**
Fixed-interest loans	2.5	1.3	(125.9)	(1.3)	(2.5)
Variable interest loans			(1,295.1)		
Collar transactions	0.4	0.2	0.7	(0.2)	(0.4)
Swap transactions	(0.6)	(0.3)	2.3	0.3	0.6
Other options	0.0	0.0	(0.1)	0.0	0.0
Total	2.3	1.1	(1,418.0)	(1.1)	(2.3)

Update on positions in derivative instruments for the first half of 2008

Hedging transactions against changes in exchange rates on cash flows – $ thousands				
The transactions are made for economic hedging and are not recognized for accounting	**Stated**		**Fair value**	
	Up to one year		**Up to one year**	
	Long	**Short**	**Long**	**Short**
Transaction direction in derivatives is the acquisition of dollars				
Currency: Euro/$ in $ thousands				
Forward				
Up to one year	129,808		(3,372)	
Over one year	8,000		(1,748)	
Call options				
Up to one year	186,767		(8,353)	
Put option				
Up to one year	186,354		2,539	
JPY/$ in $ thousands				
Forward				
Up to one year	11,239		(132)	
Call options				
Up to one year	13,010		230	
Put options				
Up to one year	13,000		(132)	
Currency: Shekel/$ in $ thousands				
Forward				
Up to one year		91,208		4,860
Call options				
Up to one year		17,500		(23)
Put option				
Up to one year		19,000		1,033

Currency: Shekel/Euro according to the dollar				
Call options				
Up to one year		8,508		0
Put option				
Up to one year		630		47
Other currencies				
Call options				
Up to one year	984		38	
Put option				
Up to one year	968		(29)	
Currency: GBP/Euro according to the dollar				
Transaction direction is acquisition of GBP				
Call option				
Up to one year	50,416		(2,731)	
Put option				
Up to one year	50,416		135	

Interest-hedging transactions against changes in variable interest rate (LIBOR) on dollar loans, in $ thousands								
	Nominal value				**Fair value**			
	Up to one year		**Over one year**		**Up to one year.**		**Over one year**	
	Long	**Short**	**Long**	**Short**	**Long**	**Short**	**Long**	**Short**
Swap			125,000	106,000			707	1,543
Caps	300,000		150,000		(323)		1,044	
Floors		300,000		150,000				
Other options	70,000				(127)			

8. Accounting Issues

8.1 Disclosure of the approval process for the Company's financial statements

The board of directors of ICL bears overall responsibility for final auditing in the Company.

The Board of Directors appointed a Finance Committee, which discusses the financial statements and makes recommendations concerning their approval. The Finance Committee has seven members, including all the outside directors, and all members have accounting and financial expertise. All members of the Board of Directors, the auditing accountants and the internal auditor are invited to Finance Committee discussions of the financial statements.

With the aid of a detailed presentation prepared by the CEO of the Company, Mr. Akiva Mozes and the CFO Mr. Avi Doitchman, the Finance Committee examines the financial statements, including the material issues in the financial reporting, transactions outside the normal course of business, if any, the significant assessments and critical estimates applied in the financial statements, the reasonableness of the data, the accounting policy applied and any changes that have occurred in the policy, including a review of new accounting standards, and the application of the principle of proper disclosure in financial statements and the accompanying information. The Finance Committee also examines various aspects of risk control and management, both those reflected in the financial statements (such as reporting financial risks) and those which influence the reliability of the financial statements. If necessary, the Finance Committee requests comprehensive reviews of matters of significant impact. The Company's auditing accountant responds to questions arising during the committee's discussions, and where necessary, presents the principal findings made during the audit.

The approval process for financial statements at ICL involves discussions of the segments' results by the boards of directors of the segments. The members of those boards of directors include directors from the Board of Directors of ICL, as well as ICL officers. The auditing accountant of the segments and the persons responsible for internal auditing in the segments participate in these discussions. The Board of Directors of ICL discusses ICL's financial statements after approval of the financial statements of the segments.

The approval of the Company's financial statements involves as many meetings as are deemed necessary: initially, a number of days prior to the approval, the Finance Committee discuss the significant reporting aspects, after which the Board of Directors' discussion covers the results themselves. Both the auditing accountant and the internal auditor are invited to these Board meetings. The Company's auditing accountant responds to questions arising during the committee's discussions, and where necessary, presents the principal findings made during the audit. When the Board of Directors is satisfied that the financial statements properly reflect ICL's situation and the results of its operations, it approves them.

The Finance Committee also discusses the effect of transition to IFRS, as stated in Note 9 to the financial statements.

9. Update on the Description of the Corporation's Business

An update of specific issues in the Description of the Company's Business in the Periodic Report of 2007 is presented below.

Limitations on the use of bromine-based flame retardants (section 4.2.16.A.2 in the Description of the Corporation's Business in the Periodic Report)

DECA: In April 2008 the European Court of Justice (ECJ) ruled that the exemption given to DECA in the ROHS directive for electrical and electronic products was based on procedural errors and insufficient tests. As such, the exemption will be annulled in July 2008. The ruling does not refer to the matter itself and does not preclude the possibility of reinstating the exemption. Concurrently and unrelated to the above, ICL Industrial Products and other producers of flame retardants are taking legal steps against the position of the EU authorities in connection with the ban on the use of DECA, in a court in Belgium. The hearing on the subject is yet to be held.

In May 2008 the government of Sweden announced that following opposition by the European Commission and EU member states, it is reversing its decision to ban the use of DECA in textiles, furniture and electric cables.

The government of Norway which announced a general ban on the use of DECA commencing from April 2008 and proposed ending the use of TBBA and HBCD, decided that, in view of the numerous protests received from industry, it would review the list and that for the moment, it would settle for regulated use of HBCD flame retardants.

10. Events during and subsequent to the Period

10.1 In January 2008, ICL Performance Products acquired from the Henkel Group most of the assets and operations of its water treatment business unit for approximately €60 million (approximately $90 million), subject to adjustments, mainly for working capital and commitments to the employees who will be taken on. The consideration was paid in cash.

The acquired business unit sells water-treatment products, services and equipment, particularly to industry, including for the steel industry, power stations, metal processing, chemical products, petrochemicals, and the food and beverage industries, for the treatment of cooling towers in steam production systems, drinking water, waste-water and water purification. Its main customer base is in Germany, France, Spain, Italy and Turkey. As part of the transaction, shares in the French company Henkel Concorde S.A., which operates in the same field, have been purchased

Following the transaction, ICL Performance Products employs most of the employees from the acquired business unit – approximately 180. In 2006, the sales turnover of the business unit was €52 million ($77 million), gross profit was 53% and operating income was 13%, all according to unaudited data.

The consideration was decided by negotiation. ICL financed the acquisition from its own sources and from available bank credit lines. ICL Performance Products intends to combine the operation of the acquired business unit with its own water treatment business unit, utilizing operational and other synergies, such as the purchasing of raw materials, in complementary products and in geographical compatibility of the products. The acquisition will broaden the basket of products, services, applications and know-how that ICL Performance Products can offer its customers, and will promote the geographical distribution of supply in various countries. The acquisition is also intended to enhance the R&D capability of ICL Performance Products by adding advanced technologies and intellectual property.

10.2 On March 25, 2008 a wholly-owned subsidiary of the Company signed an agreement (the "Agreement") with the Yam Tethys partnership to supply natural gas for the manufacturing sites of the ICL Group in Israel. The agreement is guaranteed by ICL. The Yam Tethys partnership consists of Delek Drilling Limited Partnership, Avner Oil Exploration Limited Partnership, Delek Investments and Properties Ltd, and Noble Energy Mediterranean Ltd.

Under the terms of the agreement, the ICL Group undertakes to purchase a total quantity of 2 billion cubic meters (BCM) of natural gas from the Yam Tethys partnership, subject to the adjustments under the terms of the agreement (the "Contract Gas Quantity").

Supply will begin on completion of the gas pipeline to the south. At the reporting date, according to timetable received from the gas transportation company, Israel Natural Gas Lines Ltd., completion of the line followed by conversion of ICL Sdom Group's plants to operation by natural gas (where most of the gas consumption of the ICL Group is expected to be), will apparently be towards the end of the first quarter of 2009.

Supply will end at the earlier of:

(1) Five years from the date of completion of the running in period, but no later than September 2015 (subject to extension as described below)
(2) Purchase of the entire Contract Gas Quantity

The period set out in sub-clause (1) will be automatically extended by one addition year, if by the end date the entire Contract Gas Quantity has not been consumed. In addition, Yam Tethys Partners have an option to extend the period by an additional two years, until the entire Contract Gas Quantity has been consumed, all as set out in the agreement.

The price of gas is based on the price of fuel oil, with a discount including maximum and minimum prices. The ICL Group has a take or pay agreement to purchase minimum annual quantities, according to conditions set out in the agreement.

The total value of the agreement is estimated at between $260 and $330 million. The actual cost will be influenced by a number of factors, mainly the price of fuel oil and the quantity and rate of gas consumption.

By upgrading from fuel to natural gas, ICL will be able to reduce the emissions produced as a by-product of its manufacturing facilities. As such, the upgrade to natural gas is in line with ICL's commitment to environmental responsibility and savings.

The agreement has a number of suspending conditions, primarily, the attainment of the necessary permits to erect connection facilities between ICL facilities and the gas line and the signing of an agreement with Israel Natural Gas Lines Ltd. for gas transmission.

10.3 On April 8, 2008, Israel Fertilizers signed agreements with customers in India for the sale of potash. Under the agreements, which are valid for one year, ICL Fertilizers will supply over 1.1 million tons of potash (including optional quantities) amounting to $700 million at a price increase of $355 per ton compared with prices in the previous agreement. On April 30, 2008 ICL Fertilizers signed an agreement with a customer in China for the sale of potash. Under the agreement, which is valid until the end of 2008, ICL Fertilizers will supply 300 tons of potash at a price increase of $400 per ton compared with the price in the previous agreement.

10.4 On May 11, 2008, S&P Maalot published that it has given an A1+ short term rating to the commercial paper which the company is issuing in the sum of $100 million. The said issue of commercial paper is part of the rollover of short term commercial paper which the company does on an on-going basis. The Company has a long-term rating of AA+.

10.5 On May 26, 2008 the Board of Directors of the Company approved the distribution of a dividend in the amount of $173 million ($172.7 million net of the share of a subsidiary), which was paid on June 25, 2008. On August 19, 2008, the Board of Directors of the Company decided on the distribution of a dividend of approximately $300 million (about $299.5 net of the share of a subsidiary), to be paid on September 23, 2008.

10.6 After the balance sheet date, on July 23, 2008, an indictment was filed in the Be'er Sheva Magistrate's Court against a sub-subsidiary of ICL Industrial Products and three of its managers. The indictment attributes to the sub-subsidiary violation of the terms of its business license and unreasonable air pollution in respect of four events in 2004, in which samples taken in or near the plant's stacks indicated, according to the State, deviation from the terms of the company's business license. The sub-subsidiary, relying on its legal counsel, is of the opinion that there is no basis for the indictment and that it acted correctly.

10.7 After the balance sheet date, on July 31, 2008, the Clean Air Law, 5768-2008 was enacted. The law is designed to regulate the treatment and supervision of air pollution in Israel. The provisions of the law relevant to ICL will come into force gradually, some from 2011 and some from 2104. Many of the provisions will be regulated in regulations that are expected to be promulgated by 2010. The Company is studying the provisions of the law and preparing for its application.

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 19, 2008

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Akiva Mozes	**Nir Gilad**
CEO	**Chairman of the Board of Directors**