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

Directors Report on the State of the Company's Affairs for the period ended December 31, 2007

1. INTRODUCTION

The Directors' Report of Israel Chemicals Ltd. ("ICL" or "the Company") is presented as part of the Periodic Report for 2007, and assumes that the other parts of the Periodic Report are available to the reader.

ICL operates in a number of main segments of operation which are grouped according to managerial-functional considerations, 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 the potash into various grades and sells it worldwide. ICL Fertilizers also uses some of the potash for the manufacture of complex fertilizers.

ICL Fertilizers also mines and processes phosphate rock from open-pit mines in the Negev region, and at its production facilities in Israel it manufactures sulfuric acid, fertilizer-grade phosphoric acid, phosphate fertilizers, complex fertilizers based mainly on potash and phosphate, and specialty fertilizers. 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, and its top sales destinations are Europe, Brazil, India, China and Israel.

B. ICL Industrial Products – ICL Industrial Products manufactures elementary bromine from an end-brine that is created as a by-product of the potash production process in Sdom, as well as bromine-based compounds. ICL Industrial Products is the world's leading manufacturer of elementary bromine, producing about 27% of total global production. ICL Industrial Products uses most of the elementary bromine it produces for manufacturing bromine compounds at its production sites in Israel, Holland and China. In addition, ICL Industrial Products produces various salt, magnesia and chlorine products (chlorine is produced together with caustic soda by electrolysis of the salt created as a by-product of potash production, and is used as a raw material in the segment's production processes). ICL Industrial Products also manufactures chlorine-based products in Israel and the U.S.A. In August 2007, ICL Industrial Products acquired Supresta, a manufacturer of flame retardants and other phosphorus-based products in the U.S.A. and Germany. 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 purified phosphoric acid from other sources and also manufactures thermal phosphoric acid. The purified phosphoric acid is used in the manufacture of downstream products of high added value, and is a raw material in the production of phosphate salt (which in turn is a raw material in the production of food additives), hygiene products, phosphorus derivatives and flame retardants. ICL Performance Products also produces specialty products based on aluminum oxide (“alumina”) and other raw materials. The production sites of ICL Performance Products are mainly in Germany, the U.S.A., Brazil, Israel and China.

In addition to these segments, other ICL activities include desalination and metallurgy.

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

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.

The data for 2007 include the financial data of the Supresta group of companies, which was acquired on 13 August, 2007 ("the Acquisition Date"). The financial data of the Supresta group of companies in the period prior to the Acquisition Date are not included in the financial data shown below.

	2007		2006		10-12/2007		10-12/2006	
	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales
Sales	4,100.2	100.0	3,258.2	100.0	1,211.0	100.0	839.6	100.0
Gross profit	1,515.0	36.9	1,153.2	35.4	476.3	39.3	324.5	38.6
Operating income	714.7	17.4	536.4	16.5	223.5	18.5	147.7	17.6
Pre-tax income	641.2	15.6	494.9	15.2	189.8	15.7	117.3	14.0
Net income before extraordinary operations	548.6	12.9	386.4	11.9	174.9	13.6	108.2	12.9
Net income	535.6	13.1	373.9	11.5	164.7	13.6	90.2	10.7
Cash flow from current operations	354.6		358.6		(22.5)		88.2	
Cash flow from current operations net of the effects of a securitization deal	573.0		358.0		149.7		66.2	
EBITDA (*)	914.2	22.0	735.7	22.6	274.6	21.6	200.9	23.9
Investments								
Purchase of shares of consolidated companies	361.5		2.1		-		-	
Investment in fixed assets, less grants	192.3		135.3		67.2		42.0	
Total	553.8		137.4		67.2		42.0	

(*) Calculated as follows in millions of dollars:

	2007	2006	10-12/2007	10-12/2006
Net income	535.6	373.9	164.7	90.2
Depreciation and amortization	195.4	174.5	50.6	45.3
Financing expense, net	54.1	39.3	19.9	14.2
Income tax	113.1	136.7	25.4	31.4
Special or one-off expenses	16.0	11.3	14.0	19.8
Total	914.2	735.7	274.6	200.9

2.2 Results of operations for the period January – December 2007

Sales

Sales of the ICL Group in the reporting period amounted to approximately $4.1 billion, compared with $3.3 billion last year, an increase of 24.2%. The increase reflects mainly a rise in the selling prices of potash and phosphate fertilizers., as well as an increase in quantities sold of potash and fertilizers, which was offset by a decrease in the quantities sold of some of the bromine compounds. Sales for the period include $104.9 million Supresta sales for the period from the Acquisition Date to the end of the reporting period. In addition, the income of ICL Performance Products increased, due mainly to a rise in revenue from sales in Europe resulting from the strengthening the euro against the dollar and a rise in the selling prices of some of its products.

Below is a breakdown of sales by geographical region:

	2007		2006	
	$ millions	%	$ millions	%
Israel	244.5	5.9	207.4	6.4
North America	802.5	19.6	717.8	22.0
South America	514.7	12.6	331.0	10.2
Europe	1,529.2	37.2	1,203.5	36.9
Asia	869.3	21.2	678.8	20.8
Rest of the world	140.0	3.4	119.7	3.7
Total	4,100.2	100.0	3,258.2	100.0

The breakdown of sales in 2007 shows an increase in sales in all target markets, and most notably in South America (56%), Asia (28%) and Europe (27%), due mainly to increased sales of ICL Fertilizers to those regions. The increase in revenues from sales to Europe was also due to the strengthening euro against the dollar.

Gross Profit

Gross profit amounted to approximately $1.515 billion, an increase of $361.8 million compared to last year. The gross profit margin out of sales turnover for the year reached 36.9%, compared with 35.4% last year.

The improvement in gross profit for the period is mainly the result of a rise in the selling prices of potash and phosphate fertilizers coupled with an increase in their quantities sold. Conversely, a decrease in quantities produced and sold of some of the bromine compounds, a rise in shekels expenses in dollar terms as a result of the strengthening of the shekel against the dollar, and an increase in energy prices and in the prices of some inputs and raw materials, offset part of the profitability achievement.

Sales and Marketing Expenses

Expenses for this item amounted to approximately $600.3 million, an increase of $143.6 million compared with last year. The increase in these expenses derives mainly from a combination of increased sales of potash and fertilizers, which have a relatively high cost component of transportation and from a rise in the prices of bulk marine transportation.

General and Administrative Expenses

These expenses totaled $160.9 million, an increase of $35.9 million compared with the same period last year. The stronger euro and shekel against the dollar led to an increase in the expenses for this item in dollar terms. Furthermore, administrative expenses include a non-cash item of $9.2 million, reflecting the benefit implied in the stock options plan published at the beginning of 2007 over the period of eligibility, in accordance with IAS 24. Administrative expenses at Supresta of $8.7 million, consolidated for the first time, also contributed to the increase in these expenses.

Research and Development Expenses

R&D expenses (net of grants from the Chief Scientist) amounted to approximately $39.2 million, an increase of about $4.1 million compared with last year. The increase came mainly from the strengthening of the shekel and the euro against the dollar, and from the first time consolidation of Supresta.

Operating income

Operating income increased by $178.2 million compared with last year, reaching $714.7 million. The increase in operating income derived mainly from 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 an increase in transportation expenses. The average appreciation of the shekel compared to last year had an adverse impact on the operating income of ICL in 2007 of approximately $ 49 million.

The percentage of operating income out of sales turnover is 17.4%, compared with 16.5% last year.

Financing Expenses

Financing expenses amounted to about $54.1 million, compared with $39.3 million last year, .an increase of $14.8 million. The increase in financing expenses stems mainly from a rise of $270.0 million in the net average debt balance in the period and a rise of approximately 0.3% in the dollar interest rate.

Tax expenses

The tax expense amounted to $113.1 million, compared with $136.7 million last year. The tax rate on pre-tax profit in 2007 is 17.6%, compared with 27.6% in the prior year. The lower tax rate derives from income taxable at a reduced rate for some of the Company's operations in Israel, the effects of the strengthening shekel against the dollar on the tax expenses of consolidated companies in Israel, and from utilizing tax losses of consolidated companies abroad accumulated in prior years, for which no deferred taxes accrued. These losses were deducted from profits presented by those consolidated companies in the reporting period.

Net Income

Net income amounted to approximately $535.6 million, compared with $373.9 million last year, an increase of 43.2%.

2.3 Results of operations for the period October - December 2007

Sales

Sales of ICL in the quarter amounted to approximately $1,211.0 million, compared with $839.6 million last year, an increase of approximately 44%.

The increase in the Company's sales derives mainly from the increase in the revenue of the Fertilizer segment, both as a result of an increase in quantities potash sold and as a result of a higher selling prices of potash and phosphate fertilizers. Sales of ICL Performance Products also increased. These results were partially offset by a decrease in quantities sold of bromine compounds. Sales in the quarter include the sales of $68.8 million of Supresta, which was consolidated for the first time in 2007 from the Acquisition Date.

Below is a breakdown of sales by geographical region:

	10-12/2007		10-12/2006	
	$ millions	%	$ millions	%
Israel	70.1	5.8	55.8	6.6
North America	215.7	17.8	147.2	17.5
South America	169.8	14.0	81.5	9.7
Europe	448.5	37.1	303.4	36.1
Asia	261.9	21.6	220.1	26.2
Rest of the world	45.0	3.7	31.6	3.9
Total	1,211.0	100.0	839.6	100.0

The sales breakdown shows an increase in sale in the quarter to all destinations. The increase in sales of fertilizers led to increased sales in Asia, South America and Europe.

Gross Profit

Gross profit amounted to approximately $476.3 million, an increase of $151.9 compared with the same quarter last year. The rate of gross profit out of sales turnover rose from 38.6% to 39.3%. The increase in gross profit and the improved profit margins derive mainly from a rise in the selling prices of potash and phosphate fertilizers. The improvement was partially offset by a rise in shekel expenses in dollar terms and form a rise in the prices of some raw materials, energy products and other inputs.

Sales and Marketing Expenses

Expenses amounted to $193.5 million, an increase of $60.5 million compared with the same period last year, mainly as a result of the increase in sales of the Fertilizers segment and a sharp rise in the prices of bulk marine transportation.

General and Administrative Expenses

Expenses amounted to $48.6 million, an increase of $13.9 million compared with the same period last year, mainly due to the stronger shekel and euro against the dollar, and expense of $2.7 million for rescheduling the benefit grossed up in the stock options plan published at the beginning of 2007 pursuant to IAS 24, and the inclusion of the general and administrative expenses of Supresta.

Research and Development Expenses

R&D expenses (net of grants from the Chief Scientist) amounted to $10.8 million, an increase of about $1.7 million compared with the same period last year, mainly as a result of the acquisition of Supresta and the effects of the stronger shekel and euro against the dollar.

Operating Income

Operating income increased by $75.8 million compared with the same period last year, reaching $223.5 million. The percentage of operating income out of sales turnover is 18.5%, compared with 17.6% last year. The rise in operating income due mainly to the rise in the prices of potash and phosphate fertilizers.

Financing Expenses

Financing expenses amounted to $19.9 million, compared with $14.2 million in the same period last year. The increase is accounted for mainly by an increase of $180 million in the average balance of liabilities in the quarter and by a rise of 0.4% in the average dollar interest rate for the period. The strengthening of the shekel against the dollar also contributed to the increase in financing expenses.

Tax Expenses

Tax expenses amounted to $25.4 million, which is 13.4% of pre-tax income. The relatively low tax rate is derived from the Company's relatively high income taxable at a reduced rate for some of its operations in Israel, the effects of the strengthening shekel against the dollar on the tax expenses of consolidated companies in Israel, and from utilizing tax losses of consolidated companies abroad accumulated in prior years, for which no deferred taxes accrued. These losses were deducted from profits presented by those consolidated companies in the reporting period.

Net Income
Net income for the quarter amounts to $164.7 million, compared with $90.2 million in the same period last year, an increase of approximately 82%.

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.

Sales CIF by segment of operations	2007		2006		10-12/2007		10-12/2006	
	$ millions	% of total sales	$ millions	% of total sales	$ millions	% of total sales	$ millions	% of total sales
ICL Fertilizers	2,147.1	52.4	1,479.6	45.4	675.0	55.7	440.0	52.4
ICL Industrial Products	925.0	22.6	837.8	23.9	285.9	23.6	174.1	19.4
ICL Performance Products	1,010.6	26.8	1,027.9	29.4	272.8	22.5	251.4	28.0
Other and setoffs	(73.5)		(87.1)		(22.7)		(25.9)	
Total	**4,100.2**		**3,258.2**		**1,211.0**		**839.6**	

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

Operating income by segment of operations	2007		2006		10-12/2007		10-12/2006	
	$ millions	% of segment sales	$ millions	% of segment sales	$ millions	% of segment sales	$ millions	% of segment sales
ICL Fertilizers	518.9	24.7	266.8	18.0	187.8	27.8	102.7	23.3
ICL Industrial Products	124.2	13.4	208.9	24.9	22.3	7.8	31.0	17.8
ICL Performance Products	88.9	8.0	85.9	8.4	15.1	5.5	17.0	6.8
Other and setoffs	(17.3)		(23.3)		(1.7)		(3.0)	
Operating income (consolidated)	**714.7**		**536.4**		**223.5**		**147.7**	

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

3.1 ICL Fertilizers

Sales
The volume of sales in the segment in the reporting period amounted to $2,147.1 million, an increase of $667.5 million, or 45.1%, compared with last year.

The increase in sales turnover derives from a rise in the prices of potash and phosphate fertilizers and a sharp increase in the quantities of potash sold compared with the prior year, when potash sales declined due to the protracted negotiations with Chinese and Indian customers. At the report date, no agreement has been signed for 2008 sales of potash to China, and at this stage the Company is not selling potash to China. Nevertheless, most manufacturers are reporting sales to other markets at their full shipping capacity and the non-availability of surplus quantities of potash, accompanied by a rise in its prices.

Operating income

Operating income in the segment amounted to $518.9 million, an increase of $252.1 million compared with 2006, which is 94.95%. The percentage of operating income out of sales was 24.2%, compared with 18.0% last year.

The improvement in operating income and in profit margins derives mainly from the sharp rise in selling prices. However, operating income was adversely affected by a rise in the prices of principal raw materials, a sharp rise in the prices of marine transportation and the appreciation of the shekel against the dollar. Operating income in 2006 included income of $46.2 million from insurance companies in respect of flood damages at the end of 2004.

Potash

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

Potash – Sales Revenue and Income (in millions of $)

	2007	2006	10-12/2007	10-12/2006
Revenue*	1,385.4	925.1	448.2	301.2
Operating income	398.1	245.1	145.6	99.4

* Including revenue from inter-segment sales

The increase in revenue in the period compared with the prior year derives from a significant rise in the quantity of potash sold in India and China. In 2006, the quantities of potash sold to those destinations decreased due to the protracted negotiations and the late execution of sales contracts.

The ongoing global demand for potash led to a rise in its prices which continued throughout 2007 in all destination markets.

Potash – Production, Sales and Stocks (in thousands of tons)

	2007	2006	10-12/2007	10-12/2006
Production	5,078	5,086	1,421	1,415
Sales to external customers	5,191	3,912	1,430	1,335
Sales to internal customers	264	236	66	68
Total sales (including internal sales)	5,455	4,148	1,496	1,403
Closing stocks	1,285	1,662	1,285	1,662

In 2007, ICL invested in expansion of the potash production capacity in Sdom, in mining equipment in Spain and in the development of new mining areas in England, which are not yet reflected in the annual production volumes.

The increase in potash sales in 2007 compared with 2006 derives from a rise in demand, which led to increased sales, enabling reduction of stocks at Sdom. In addition, sales to China and India in 2006 were significantly lower than in 2007, due to the late closing of the sales agreements.

Fertilizers and Phosphates

Revenues for these products derive 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 (in millions of $)

	2007	2006	10-12/2007	10-12/2006
Revenue*	812.8	594.4	241.2	138.7
Operating income	122.1	19.8	43.3	3.3

* Including revenue from inter-segment sales.

The increase in income from sales in 2007 reflects the rise in the selling prices of fertilizers, continuing the trend that commenced at the end of 2006 and reaching an all time high.

The price rise is the result of increased demand. In addition, quantities of fertilizers sold in Brazil and Argentina also increased, as well as an Europe following the recovery of the grain market.

Increase in operating income derives from higher selling prices of the fertilizers and phosphate rock and the improved performance of the production facilities. However, operating income was adversely affected by a rise and the cost of wages, higher prices of most inputs, notably sulfur, and the appreciation of the shekel against the dollar.

Fertilizers and Phosphates – Production and Sales (in thousands of tons)

	2007	2006	10-12/2007	10-12/2006
Phosphate rock				
Production	3,069	2,949	800	687
Sales*	287	421	68	95
Fertilizers				
Production	1,771	1,614	472	423
Sales*	1,784	1,656	434	357

* To external customers (net of sales to Group companies).

Phosphate rock is produced according to demand, both for internal uses and for sales to external customers, while maintaining suitable stock levels. During the quarter, and taking into account the considerable rise in the selling prices of phosphate rock, the Company increased production in order to enable its sale as an end product.

3.2 ICL Industrial Products

Sales

Sales in this segment in the reporting period amounted to $925.0 million, an increase of $87.2 million compared with last year. The increase in the volume of sales in 2007 is attributable to the inclusion of $104.9 million revenue of Supresta, consolidated for the first time. Eliminating the Supresta revenue, sales in this segment decreased by $17.7 million.

Sales in the fourth quarter amounted to $285.9 million, an increase of $111.8 million compared with the same period in 2006. A considerable part of the increase in sales is attributable to the inclusion of $68.8 million revenue of Supresta, mainly due to increased quantities sold. Eliminating the Supresta revenue, sales in this segment increased by $43 million, mainly as result of larger quantities sold.

Income from sales of flame retardants decreased as a result of smaller quantities sold due to a slowdown in the printed circuits market and due to intensifying competition, mainly from Chinese manufacturers.

Revenue from inorganic bromine products increased for the year, mainly as a result of increased quantities of bromine sold. In contrast, sales of clear brines for the oil drilling industry declined to below last year's levels. The decrease in quantity is the result of increased purchases to stock in the same period last year, and fewer oil drilling sites in the Bay of Mexico. The decrease was offset by a rise in prices.

Sales of agricultural products decreased in quantities sold in 2007 compared with last year, due to implementation of the Montreal Protocol.

No significant change occurred In sales of biocides for water treatment compared with 2006.

Sales of magnesia products increased significantly for the period, mainly due to an increase in the quantities sold of sintered and specialty products.

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

Operating income

Operating income in the segment for the reporting period was $124.2 million, compared with $208.9 million last year.

The decrease compared with 2006 stems mainly from the decrease in quantities sold, as well as in quantities produced, in order to adjust production to demand. Operating income was also adversely affected by a rise in the purchase prices of some principal raw materials, a rise in energy prices and a rise in shekel expenses due to the stronger shekel against the dollar.

The results of ICL Industrial Products include the results of Supresta for the first time, for the period form the Acquisition Date (14 August, 2007) to 31 December, 2007. The operating loss of Supresta for that period amounted to $2.2 million.

In accordance with accepted accounting principles, inventories held by Supresta on the Acquisition Date are stated at fair value, and not at their cost to Supresta. The surplus fair value over the cost of these inventories at the Acquisition Date amounted to approximately $87 million, and was charged to cost of sales in the income statement for the period. Eliminating the difference between the fair value and cost of the inventories, the operating income of Supresta for the period amounts to $4.5 million.

3.3 ICL Performance Products

Sales

Sales in this segment amounted to approximately $1,101.6 million, an increase of $73.7 (7.2%) compared with last year. The increase in income derives mainly from the stronger euro, a slight increase in quantities sold of some products in Europe, sales of Wildfire Safety products in North America, and a rise in the selling prices of some of the products.

Operating income

Operating income in the segment amounted to $88.9 million, about $3.0 million (3.5%) higher than last year. The margin was approximately 8.0%, similar to last year.

The improved operating income was due mainly to improvement in the margin in the flame retardants unit, as a result of the numerous fires in North America.

After the reporting period, ICL Performance Products acquired a water treatment business unit from the Henkel Group, as well as Biogema, which has operations in Wildfire Safety products in Europe (see Section 14.1).

4. THE FINANCIAL POSITION AND SOURCES OF FINANCING OF THE GROUP

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

The net financial liabilities (including securitization) of the Company increased at December 31, 2007, compared with their balance at the end of 2006, and amounted to $1,206.0 million.

The Group's sources of financing are short- and long-term loans from Israeli and international banks. ICL also has debentures which were issued to institutional investors in the U.S., and the Company also manages a trade receivables securitization program and issues short-term commercial paper as additional sources of finance.

On August 6, 2007, ICL entered into an agreement with a group of 17 banks from Europe, the U.S. and Israel, under which ICL was granted a $725 million credit by those banks for a period of 5 years (bullet), at short-term LIBOR + 0.45%. The new loan replaces, *inter alia*, a similar loan of $250 million taken in 2005 at short-term of LIBOR + 0.6% for 5 years which was repaid early.

In July 2007, ICL increased the size of the securitization transaction (made in 2004 with Rabobank) from $ 220 million to $ 300 million. Under this transaction, some of the Group companies sell their customer debt to a foreign company established for the purpose of that transaction and which is neither owned nor controlled by the ICL Group.

Following the global financial crisis, the cost of financing the securitization transaction was high compared with alternative sources of financing of the Group, and therefore, at December 31, 2007, the securitization was not utilized. At the beginning of 2008, the cost of securitization fell, and at the reporting date the Group is gradually resuming its utilization.

5. CASH FLOW

Net cash flow generated by operating activities in 2007 amounted to $354.6 million, compared with $358.6 million last year. The cash flow is influenced by the securitization operation described in Section 3 above. Eliminating securitization, cash flow in 2007 and 2006 amounts to $573 million and $358 million, respectively. Cash flow for the period includes insurance receipts of $45 million recorded as income in 2006 and actually received in this period.

The cash flow from operating activities, together with an increase of $437 million in net financial liabilities, were the principal source of net investment financing in fixed assets amounting to approximately $192.3 million, for financing a cash consideration of $354.8 million paid in respect of the acquisition of Supresta, and for payment of a dividend of $547.0 million to the shareholders.

6. INSURANCE

The ICL Group carries property insurance for physical damage and loss of profits, under policy terms customary in this industry. The extent of coverage takes into account the expected maximum loss from an earthquake in the Dead Sea region, based on an assessment prepared for the Company by experts. The coverage at the date of the report is $600 million. Following the rise in the prices of the Group's products, which brings with it an increase in the expected maximum loss from an earthquake to more than $600 million, the Company is attending to increasing the extent of insurance coverage by additional amounts. The Group’s property in Israel is insured against physical damage resulting from an act of terrorism, in accordance with the Property Tax and Compensation Fund Law.

CPL does not purchase insurance for underground property damage, since in the opinion of Management, the cost of the premium asked in relation to the coverage offered does not justify purchasing this insurance. A similar policy is followed by peer companies in this field in the world.

ICL Group carries product liability insurance, third party insurance and employers’ liability insurance in the sum of $350 million, under the standard policy conditions in this industry. The Group is also insured under other policies, including credit insurance, marine cargo insurance, insurance for gradual ecological damage, directors and officers insurance and fidelity insurance.

ICL Group owns a "captive" reinsurance company, which purchases part of the risk from the insurance companies that insure ICL companies, in consideration of the standard premium in the insurance market. In this way, the ICL Group takes retentions beyond the single company level, in order to reduce the cost of the premiums paid to the external insurance market, and the cost of risk to the Group. At the date of this report, the captive participates in retention in the following insurances: property, product liability and third party, credit, employers' liability, insurance and ecology. For ecology, the retention is up to $5 million per occurrence, and for all other insurances there is also a limit on maximum annual exposure – in property insurance that limit is $15 million and in the other insurances – between $0.2 million and $5 million, depending on the type of insurance. The maximum retention through the captive in property insurance will increase in April 2008 to $ 20 million and for product and third party liability to $ 6 million.

7. INVESTMENTS

In the reporting period, investments in fixed assets net of investment grants amounted to approximately $192.3 million, compared with investments in fixed assets less grants amounting to $135.3 million last year. The increase is accounted for by the investments made in expanding the production capacity for a number of important products and investments in the area of ecology.

8. HUMAN RESOURCES

The total number of employees at ICL Group at December 31, 2007 is 9,914, compared with 9,307 on December 31, 2006, an increase on 607 employees. The increase is explained mainly by the inclusion of 305 Supresta employees (since its acquisition in 2007) in the ICL Industrial Products segment. An increase was also recorded in operations in China, a rise in the number of employees in transportation due to the purchase of new trucks, and in IDE due to new projects.

9. MARKET RISK EXPOSURE AND MANAGEMENT

9.1 Market Risks Officer

CPA Avi Doitchman, the CFO of ICL is responsible for managing the market risks to which ICL is exposed. For details of his education, qualifications, business experience and positions in ICL, see the chapter "Additional details" re Article 26A in the Periodic Report.

9.2 Description of market risks

A. Prices – Selling prices of certain products and prices of certain inputs

Some of ICL's products and of some of its inputs are characterized by given market prices which ICL has limited ability to affect. The Group is exposed to changes in the prices of these products and inputs.

The prices of ICL's products have no hedging instruments.

B. Exchange rates and the CPI

The dollar is the principal currency of the business environment in which most of the Group's companies operate. The majority of operations – sales, purchase of materials, selling and marketing expenses and financing, as well as the purchase of property, plant and equipment – are transacted in foreign currency, mainly dollars, and so the dollar is used as ICL's functional currency of measurement and reporting.

ICL has a number of consolidated subsidiaries overseas and one local subsidiary, whose operations are independent and autonomous. The currencies of measurement of those companies are their local currencies – the shekel, the euro and the pound sterling.

B.1. Some of ICL's sales in non-dollar currencies expose it to changes in the exchange rates of those currencies against the dollar. The income and expenses of the consolidated overseas companies which operate independently / autonomously in local non-dollar currencies, do not constitute exposure; however, the income and expenses of those companies in dollars do expose them to fluctuations in dollar exchange rates vis-à-vis the currencies in which they operate.

ICL's exposure as aforesaid is based on net income/expenses in any currency which is not the reporting currency of that company.

The prices of certain transactions, despite not being effected in dollars, are affected by the changes in dollar exchange rates as compared with the transaction currency, and are adjusted to changes in the exchange rate during a short period.

B.2. Part of the costs of ICL's inputs in Israel are denominated and paid in shekels. Thus, ICL is exposed to a strengthening of the shekel exchange rate against the dollar (shekel appreciation). This exposure is identical in its nature to the exposure described in section B.1, but is of much greater volume than the other currency exposures.

B.3. The results for tax purposes of the Company and some of the ICL companies are measured in a currency other than the dollar – in Israel, CPI-adjusted shekels, and abroad, in the local currency. As a result, ICL is exposed to the difference between the percentage of the change in the dollar exchange rate and the basis of the measurement for tax purposes.

B.4. ICL companies have severance pay commitments which are made in local currency, and in Israel they are also affected by rises in the CPI. The ICL companies in Israel have reserves to cover part of these commitments, which are denominated in shekels and affected by the performance of the funds in which the sums are invested.

B.5. ICL has monetary assets and liabilities in non-dollar currencies or in currencies which are not linked to the dollar, and correspondingly in non-local currency in autonomous overseas companies (except as described in sub-sections B.3 and B.4 above). The differences between the assets and liabilities in the various non-functional currencies create exposure.

B.6. Investment in independent / autonomous subsidiaries – ICL has consolidated subsidiaries overseas whose operations are independent and autonomous. The end-of-period balance-sheet balances of these companies are translated into dollars at the end of the period at the exchange rate of the dollar and the currency in which these companies report. The beginning-of-period balance-sheet balances, as well as capital changes during the period, are translated into dollars at the exchange rate at the beginning of the period or on the date of the change in capital, respectively. The differences arising from the effect of the change in the exchange rate between the dollar and the currency in which the companies report, create exposure. The effects of this exposure are charged directly to shareholders' equity.

C. Interest Rates

The Group has variable-interest loans which expose its financial results (financing expenses) and its cash flows to changes in those interest rates.
ICL hedges against part of this exposure by means of financial instruments, including derivatives.

As at December 31, 2007, ICL has cap options to secure a LIBOR interest ceiling of 4%, which cover a notional amount of $50 million. The Group has also purchased and written interest options which serve to fix the LIBOR interest in a range of between 2% and 6% (collar). As at December 31, 2007, the options cover a notional amount of $400 million.

Some of these transactions combine the writing of options under which, if the variable LIBOR-based interest exceeds 6% – 7%, the transactions at such time will be temporarily void.

9.3 <u>The Corporation's market risk management policy</u>

For financial assets and financial liabilities in currencies which are not the currency of the operation of the companies of the Group, ICL's policy is to minimize this exposure as far as possible by the use of various hedging instruments.

The Company does not hedge against severance pay liabilities and the tax results of ICL, since the exposure is long term.

For hedging against the prices of heavy fuel, income and expenses in currencies which are not the currency of operation of the companies, and interest rate, the Company's policy is to hedge at varying rates.

Heavy fuel prices

Hedging is coordinated by the Group's Energy Committee. The scope of the hedging is determined after consultation with energy experts in Israel and abroad. In view of the high prices of energy, the Committee has decided, at this stage, to hedge a small percentage of the annual exposure.

Exchange rates

ICL's Finance Committee (whose members are the senior financial managers of ICL and the segments) periodically examines the extent of the hedging implemented for each of the exposures described above, and decides on the required scope for the subsequent period. ICL uses various financial instruments for its hedging activity, including derivatives.

Interest rates

The Finance Committee of ICL examines the extent of the hedging in order to adjust the structure of the actual interest to the Company's expectations with regard to developments in the interest rate, taking into account the cost of the hedging. The hedging is implemented by hedging floating interest and occasionally by fixed interest fluctuation.

9.4 Control of market risk management policy and implementation

ICL’s companies regularly monitor the extent of the exposure and hedging in the various areas. The hedging policy for all types of exposure is discussed by the boards of directors of the Company and of ICL’s companies as part of the annual budget discussions. Together with the presentation of quarterly financial results, the finance committees of ICL’s companies receive quarterly reports on exposures and hedging as a control device of the existing policy and for its revision and update if necessary. The managements of the companies implement the policy with reference to actual developments and to expectations in the various markets.

ICL uses financial instruments and derivatives (hedging instruments) for hedging purposes only. These hedging instruments neutralize ICL’s exposure as described above. Thus, ICL includes the financial impact of the hedging transactions on existing assets and liabilities and on firm commitments in the results of the assets and liabilities which they protect. The financial impacts of all other hedging transactions are charged to financing expenses.

The Company does not save detailed documentation of the designation of all the financial instruments.

Derivatives transactions are made with banks. ICL believes that there is no consequent credit risk. ICL does not demand and does not provide collateral for these derivatives.

9.5 Sensitivity analysis

Market risks have been defined according to international accounting standards. According to security rules, market risks are defined as the potential for profit or loss as a result of the change in the fair value of financial instruments with the following risks:

a. Exchange rate risk – as a result of the exchange rate of a foreign currency compared to the US dollar, as set for the measurement of fair value.

2. Fair value risk in respect of interest rates – as a result of change in market interest rates.

The Company calculated the impact of six sensitivity scenarios as a result of changes of plus and minus 5% and 10%.
The result of this sensitivity analysis is as follows:

USD/ILS	**Profit (loss) from changes (in $ millions)**		**Fair value (in $ millions)**	**Profit (loss) from changes (in $ millions)**	
Type of instrument	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Cash and cash equivalents	(0.2)	(0.1)	2.3	0.1	0.3
Marketable securities	0.0	0.0	0.0	0.0	0.0
Short-term deposits and loans	(0.3)	(0.2)	3.7	0.2	0.4
Trade receivables and debit balances	(8.1)	(4.2)	88.8	4.7	9.9
Inventories	0.0	0.0	0.0	0.0	0.0
Financial investments in investees	0.0	0.0	0.0	0.0	0.0
Long-term deposits and loans	(1.5)	(0.8)	16.5	0.9	1.8
Credit from banks and other	7.0	3.7	(76.9)	(4.0)	(8.5)
Suppliers and other	12.6	6.6	(138.9)	(7.3)	(15.4)
Trade payables and credit balances	10.7	5.6	(117.7)	(6.2)	(13.1)
Employee-related obligations	13.3	7.0	(146.2)	(7.7)	(16.2)
Long-term bank loans	0.0	0.0	(0.1)	(0.0)	(0.0)
Debentures	0.0	0.0	0.0	0.0	0.0
Options	(8.3)	(4.1)	6.7	4.2	8.9
Forward	(5.7)	(3.0)	0.1	3.3	7.0
Total	25	13	(362)	(15)	(32)

Euro/USD	Profit (loss) from changes (in $ millions)		Fair value (in $ millions)	Profit (loss) from changes (in $ millions)	
Type of instrument	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Cash and cash equivalents	(1.7)	(0.9)	19.2	1.0	2.1
Marketable securities	0.0	0.0	0.0	0.0	0.0
Short-term deposits and loans	(1.1)	(0.6)	12.5	0.7	1.4
Trade receivables and debit balances	(27.4)	(14.4)	301.9	15.9	33.5
Inventories	(18.5)	(9.7)	203.5	10.7	22.6
Financial investments in investees	(9.0)	(4.7)	98.8	5.2	11.0
Long-term deposits and loans	(0.5)	(0.2)	5.2	0.3	0.6
Credit from banks and others	12.4	6.5	(136.6)	(7.2)	(15.2)
Suppliers and others	16.6	8.7	(182.2)	(9.6)	(20.2)
Trade payables and credit balances	12.1	6.3	(133.1)	(7.0)	(14.8)
Employee-related obligations	9.8	5.1	(107.3)	(5.6)	(11.9)
Long-term bank loans	0.0	0.0	0.0	0.0	0.0
Options	(12.1)	(6.3)	(3.6)	7.0	14.8
Forward	(4.0)	(4.5)	(4.2)	6.0	12.1
Total	(23.6)	(14.7)	74.1	17.3	36.0

GBP/USD	Profit (loss) from changes (in $ millions)		Fair value (in $ millions)	Profit (loss) from changes (in $ millions)	
Type of instrument	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Cash and cash equivalents	(0.1)	(0.0)	0.7	0.0	0.1
Marketable securities	0.0	0.0	0.0	0.0	0.0
Short-term deposits and loans	(0.4)	(0.2)	4.5	0.2	0.5
Trade receivables and debit balances	(3.9)	(2.0)	42.6	2.2	4.7
Inventory	(1.8)	(1.0)	20.1	1.1	2.2
Financial investments in investees	0.0	0.0	0.0	0.0	0.0
Credit from banks and others	0.3	0.2	(3.8)	(0.2)	(0.4)
Suppliers and others	0.9	0.5	(10.0)	(0.5)	(1.1)
Trade payables and credit balances	2.3	1.2	(24.9)	(1.3)	(2.8)
Employee-related obligations	(0.4)	(0.2)	4.5	0.2	0.5
Forward	(407.5)	(213.4)	76.1	235.9	498.0
Total	(410.5)	(215.0)	109.7	237.7	501.7

Sensitivity to changes in LIBOR interest rate

	Profit (loss) from changes (in $ millions)		Fair value (in $ millions)	Profit (loss) from changes (in $ millions)	
Type of instrument	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Fixed-interest loans	2.9	1.4	(228.8)	(1.4)	(2.9)
Variable-interest loans			(1,144.8)		
Collar transactions	0.5	0.2	0.40	(0.4)	(0.7)
Cap options	0.0	0.0	0.38	(0.0)	(0.0)
Swap transactions	(1.9)	(0.9)	1.0	1.1	2.1
Other options	0.8	0.6	(0.7)	(0.1)	(0.5)
Total	1.5	0.8	(1,371.9)	(0.7)	(1.5)

JPY/USD	Profit (loss) from changes (in $ millions)		Fair value (in $ millions)	Profit (loss) from changes (in $ millions)	
Type of instrument	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Cash and cash equivalents	(0.0)	(0.0)	0.3	0.0	0.0
Negotiable securities	0.0	0.0	0.0	0.0	0.0
Short-term deposits and loans	0.0	0.0	0.0	0.0	0.0
Trade receivables and debit balances	(1.9)	(1.0)	20.6	1.1	2.3
Inventory	(1.6)	(0.8)	17.4	0.9	1.9
Financial investments in investees	0.0	0.0	0.0	0.0	0.0
Long-term deposits and loans	(0.0)	(0.0)	0.1	0.0	0.0
Credit from banks and others	0.2	0.1	(2.3)	(0.1)	(0.3)
Suppliers and others	0.5	0.3	(5.9)	(0.3)	(0.7)
Trade payables and credit balances	0.0	0.0	(0.0)	(0.0)	(0.0)
Liabilities for employee rights	0.1	0.1	(1.6)	(0.1)	(0.2)
Forward	1.1	0.6	0.3	(0.7)	(1.4)
Options	0.6	0.2	(0.1)	(0.3)	(0.7)
Total	(0.9)	(0.6)	28.7	0.6	1.1

BRL/USD	Profit (loss) from changes (in $ millions)		Fair value (in $ millions)	Profit (loss) from changes (in $ millions)	
Type of instrument	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Cash and cash equivalents	(0.2)	(0.1)	2.6	0.1	0.3
Negotiable securities	0.0	0.0	0.0	0.0	0.0
Short-term deposits and loans	0.0	0.0	0.0	0.0	0.0
Trade receivables and debit balances	(1.0)	(0.5)	10.7	0.6	1.2
Inventory	(0.8)	(0.4)	9.2	0.5	1.0
Financial investments in investees	(1.0)	(0.5)	11.3	0.6	1.3
Credit from banks and others	0.0	0.0	0.0	0.0	0.0
Suppliers and others	0.3	0.2	(3.5)	(0.2)	(0.4)
Trade payables and credit balances	0.2	0.1	(2.4)	(0.1)	(0.3)
Total	(2.5)	(1.3)	27.8	1.5	3.1

CNY/USD	Profit (loss) from changes (in $ millions)		Fair value (in $ millions)	Profit (loss) from changes (in $ millions)	
Type of instrument	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Cash and cash equivalents	(0.0)	(0.0)	0.0	0.0	0.0
Negotiable securities	0.0	0.0	0.0	0.0	0.0
Short-term deposits and loans	(0.6)	(0.3)	7.1	0.4	0.8
Trade receivables and debit balances	(0.7)	(0.3)	7.2	0.4	0.8
Inventory	(2.0)	(1.0)	21.5	1.1	2.4
Financial investments in investees	0.0	0.0	0.0	0.0	0.0
Credit from banks and others	(0.1)	(0.1)	1.5	0.1	0.2
Suppliers and others	(0.5)	(0.2)	5.0	0.3	0.6
Trade payables and credit balances	0.0	0.0	0.0	0.0	0.0
Total	(3.9)	(2.0)	42.5	2.2	4.7

Below are the updated positions in derivatives for 2007:

Hedging transactions against the effects of changes in exchange rates of cash flow – in $ thousands				
	Nominal Value		Fair Value	
	Up to One Year		Up to One Year	
	Long	Short		Long
Direction of transaction in derivatives is dollar purchase.				
Euro/USD in USD thousands				
FORWARD				
Setoff recognized for accounting	108,537		-1,551	
Setoff not recognized for accounting	19,669		-1,987	
Put Options				
Setoff recognized for accounting	131,578		-5,630	
Call Options				
Setoff recognized for accounting	131,414		1,215	
JPY/USD in USD thousands				
FORWARD				
Setoff recognized for accounting	12,878		276	
Put Options				
Setoff recognized for accounting	11,500		31	
Call Options				
Setoff recognized for accounting	11,500		-165	
NIS/USD in USD thousands				
FORWARD				
Setoff recognized for accounting		64,498		115
Put Options				
Setoff recognized for accounting		115,500		-133
Call Options				
Setoff recognized for accounting		67,000		6,686
NIS/Euro in USD				
Put Options				
Setoff recognized for accounting		15,757		-89
Call Options				
Setoff recognized for accounting		8,462		201
Other currencies				
FORWARD				
Setoff recognized for accounting	16,026		-230	
Put Options				
Setoff recognized for accounting	1,791		19	
Call Options				
Setoff recognized for accounting	1,791		-76	

Interest-hedging transactions – for hedging changes in variable interest rate (LIBOR) on dollar loans								
	Nominal Value				Fair Value			
	Up to one year		More than one year		Up to one year		More than one year	
	Long	Short	Long	Short	Long	Short	Long	Short
Swap				125,000				961
Caps	50,000		400,000		465		319	
Floors		50,000		350,000				
Other options	100,000				-651			

10. ACCOUNTING ISSUES

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

The Board of Directors of ICL is responsible for supreme control 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 consists of seven members, three of whom are independent (including the two outside directors), and all the members have accounting and financial expertise. All the members of the Board of Directors are invited to the Finance Committee's discussions of the financial statements, as are the auditing accountants.

With the aid of a detailed presentation prepared by the Company's Management, 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 it, 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 ICL participates in those discussions. The Board of Directors of ICL discusses ICL's financial statements after approval of the financials statements of the segments.

The approval of the Company's financial statements involves as many meetings as are deemed necessary: initially, several days prior to the approval, the Finance Committee discusses 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 auditing accountant responds to questions arising during the 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.

10.2 Accounting and financial expertise

The Companies Law and its regulations require a public company to define the appropriate minimum number of directors having accounting and financial expertise and to disclose which directors serving in the company meet that requirement. These directors should be those who do not fulfill another function in the company and who, because of their education, experience and qualifications, have a high level of expertise and understanding of matters concerning accounting, internal auditing and financial statements, to an extent that allows them a profound degree of understanding of the company's financial statements and to raise issues and questions in connection with the financial reporting of the company.

The Board of Directors of the Company decided to set the minimum number of such directors at three. The Board of Directors believes that this number enables it to fulfill the duties imposed upon it by law and its documents of incorporation, and particularly in relation to its responsibility to ascertain the financial condition of the Company and to draw up and approve the financial statements.

In making this determination, the Board of Directors took into consideration the size of the Company, the complexity of its operations, the range of risks to which the Company is exposed, the control system currently in place in the Company – both internal auditing and the auditing of the external auditors, the existence of boards of directors in the segments of operation of the Company having a skilled and professional members, including outside directors, who examine the operations of each segment and ascertain that the segment is correctly described in the segment's reports and in the financial statements of the segment companies.

In assessing the accounting and financial expertise of the directors, considerations included their education, their managerial experience in public companies, the number of years they have served as directors in public companies and the extent of their knowledge of and proficiency in the following subjects: accounting and auditing issues that are typical of the sector in which the ICL Group operates, the role of the auditor, the duties imposed on him and the reciprocal relations between a reasonable director and the auditor, the processes involved in the preparation of financial statements according to the law and Company procedures, and the internal auditing system in the Company.

The Board of Directors of the Company believes, as at the date of this report, that eleven of the twelve members of the board of the Company have accounting and financial expertise as that term is defined above. A brief description follows:

Nir Gilad has served as Chairman of the Board of the Company since January 1, 2008. He is CEO of the parent company – Israel Corporation, was formerly the deputy CEO of Israel Corporation, Deputy CEO of Migdal Insurance Holdings, and before that he held senior positions at the Ministry of Finance, the last of which was Accountant General. Mr. Gilad has a B.A. in economics and agricultural management, and an MBA (major: finance).

Avraham (Beiga) Shohat was Israel's Minister of Finance, a member of the Knesset Finance Committee, and has held various other offices in government and the Knesset. He was and is a director in several public and private companies and has also served as a mayor. Mr. Shohat has a B.Sc. in Civil Engineering from The Technion.

Yaakov Dior is an outside director at ICL, and serves as a director in public and private companies. He has held senior positions in the banking system, including the management of two credit card companies and a commercial bank. Mr. Dior has a B.A. in economics and an MBA.

Irit Izakson is and has been a director in a number of public and private companies. She served for many years in various managerial positions in the banking system. Ms. Izakson has a B.A. degree in economics and an MBA.

Yossi Rosen is a chairman of the board and a director in various public and private companies. From 1998 to 2007 he served as Chairman of the Board of the Company and as CEO of the parent company – Israel Corporation. Mr. Rosen has a B.A. in economics and political science, and an MBA.

Amnon Sadeh is a director in a number of public and private companies. He has held senior managerial positions in a bank and in industrial and commercial companies. Mr. Sadeh has a B.A. in economics and political science.

Moshe Vidman serves and has served as a director of many public and private companies. In the past he was president and CEO of an industrial company and Deputy Accountant General at the Ministry of Finance. Mr. Vidman has a B.A. in economics and an MBA (major: finance).

Avisar Paz is CFO of the parent company – Israel Corporation, and a director in a number of the Group's companies. Previously he was CFO and comptroller of another concern. Mr. Paz is a certified public accountant and has a B.A. in economics.

Haim Erez serves as a director in a number of public companies. From 1988 to 1996 he was CEO of ICL, and prior to that he was chairman of ICL subsidiaries. Mr. Erez is a research fellow in privatization and local government at the London School of Economics.

Victor Medina is a former CEO of United Mizrachi Bank. From 1990 to 1995 he served as ICL's Chairman of the Board, prior to which he was Director General at the Ministry of Finance and served in various senior positions at the Bank of Israel, including as a member of the bank's senior management, in charge of the Monetary department, its Foreign Currency Control department and its Credit department. Mr. Medina has a B.A. in economics and political science, and an M.A. in economics (finance and banking).

Yair Orgler is an outside director at ICL. He was professor of finance and banking, Dean of the Faculty of Management, and Deputy Rector of Tel Aviv University. Prof. Orgler has published and edited numerous books in his field of specialization, as well as articles in scientific and professional journals. For about ten years, he was Chairman of the Board at the Tel Aviv Stock Exchange. Prof. Orgler has an M.A. and Ph.D. in business administration, an M.A. in Industrial engineering and management, and a B.Sc. in industrial engineering and management from the Technion. He founded Maalot – The Israel Securities Rating Co. Ltd., and was acting Chairman of that company. He was and is a director in a number of public companies.

Additional details about the corporations and their directors can be found in the Periodic Report. The directors with accounting and financing expertise also serve on some of the boards of directors of the private subsidiaries of ICL.

10.3 Critical accounting estimates

The preparation of the financial statements according to accepted accounting principles requires the Management of the Company to use estimates that influence the assets and liabilities in the balance sheet, the contingent liabilities and the Company's results in the reporting period. The Management bases the estimates on past experience and on additional factors which it believes to be relevant to the circumstances. These estimates are critical, since any change in them can affect the financial statements.

Pension liabilities

In calculating its pension liabilities, the Company uses various estimates. These include, among others, the interest rate for discounting of the Company's pension liability, the expected long-term yield in respect of the pension fund assets, the long-term growth forecast for wages and the forecast life expectancy of those entitled to the pension.

The estimated interest rate for discounting of the Company's pension liability is based on the yield of long-term debentures. The yield of the long-term debentures varies according to market conditions. As a result, the interest rate for discounting will vary and in consequence, the pension liability will also vary.

The estimated long-term yield in respect of the pension fund assets is based on the yield expected over time of the asset portfolio according to the composition of the pension fund assets. Changes in capital market conditions or in the composition of the pension fund asset portfolio can lead to changes in the estimated yield of the pension fund assets and consequently, to a change in the pension fund.

The estimated growth forecast for wages is based on the Company's forecast in light of past experience and actual labor agreements. This estimate might not tally with actual growth in wages.

The estimated life expectancy is based on the actuarial research papers published in every country. In practice, this research is updated every few years, and estimated life expectancy is adjusted accordingly.

In the past three years, the effects of changes in actuarial estimates were not material.

Commencing in the first quarter of 2008, the financial statements of the Company will be prepared on the basis of International Financial Reporting Standards (IFRSs). On the date of transition to IFRSs, all the net liabilities in respect of post-employment benefits and other long-term benefit plans, are measured in accordance with IAS 19 – Employee Benefits. Under IAS 19, some of the Group's compensation plans constitute a "defined benefit plan" as this term is defined in IAS 19. Measurement of the liability in respect of employer-employee relations of such plans is based on actuarial assessment and takes into account various estimates, such as future growth in wages, and employee turnover. The measurement is made on the basis of discounted expected future cash flows, according to the interest rate of high quality government bonds. In addition, severance reserves are measured at their fair value.

Environmental matters

The ICL Group manufactures fertilizers and chemical products and is therefore exposed, in the ordinary course of its business, to liabilities and obligations arising from environmental legislation and related laws and directives. The Group invests considerable amounts in complying with the requirements of the law. The Company records a liability in its books when such a liability is anticipated and can be estimated. The estimate of the liability is based mainly on experience, familiarity with the requirements of the law in the areas of Company operation, on estimates relating to claims pending against the Company, and on the opinions of legal advisers and other experts. As explained in Note 18 to the financial statements, there are several legal claims pending against the Company, the outcome of which could influence its business results.

Fixed assets

Fixed assets are depreciated by the straight line method, based on the estimated duration of their useful lives. Based on the Group's experience, the values of assets which were depreciated in full and which are still used in production, are significant. In view of that fact, the Group reviewed the useful lives of its fixed assets by comparing them with the sector in which the Group operates, the level of maintenance of the facilities and the functioning of the facilities over time. According to this review, the balance of the depreciation period of the fixed assets is shorter than the balance of the expected useful lives of the facilities. Based on this assessment, the Group decided to change the estimated economic life of the production plants. The change in the estimate is based on the Group's experience and not on changes which have occurred in the assets or in the business environment. A previous assessment of the useful lives of the fixed assets in the Group was made in 2002, and it too was based on the Group's experience.

In order to determine the estimated remaining useful lifetime of fixed assets, the group relied upon professional opinions (most of them internal, and one independent outside opinion). The change in the estimated f useful lives of the fixed assets, which reflects a longer depreciation period, will be made in the financial statements prepared in accordance with IFRSs, commencing January 1, 2007. These effects will be expressed in the financial statements prepared according to IFRSs which will be published for the first quarter of 2008.

Standard 15 – Impairment of the value of assets

Under Standard 15, upon signs of a decrease in value, the Company examines whether the stated value of the asset in the Company's books is recoverable from the cash flow expected from that asset. The recoverable amount of the asset is determined at the higher of the net selling price of the assets and the present value of the cash flow expected from continued use of the asset, including the cash flow expected when the asset is taken out of service and realized in the future.

The circumstances likely to give rise to concern of impairment can be a change in regulation in respect of the environment, a change in the interest rate for discounting, physical damage to facilities, termination of the operation of facilities, a change in the business environment, etc.

In calculating impairment, estimates are made for future cash flows, the growth forecast for the operation of the facility in the short term and the long term, and in the discount rate reflecting also the risk of the sector to which the activities belong. A change in these estimates or in actual results compared with the estimate, can influence the need for making a write-off and as a consequence, the assets and results of the Company.

10.4 Fees of the auditing accountant

In 2007, the ICL Group recorded expenses in respect of services received from KPMG for auditing services, audit-related services and tax advice. for an amount of $ 5,384 million, as follows:

	2007				**2006 Joint auditors**			
	Fees ($ thousands)		**No. of hours**		**Fees $ thousands)**		**No. of hours**	
	Israel	Abroad	Israel	Abroad	Israel	Abroad	Israel	Abroad
Audit and tax services	1,640	3,251	29,003	15,475	1,500	2,040	27,445	13,555
Other services	--	493		1,438	-	-	-	-

11. INTERNAL AUDITING AND COMPLIANCE

11.1 Internal compliance plan and code of ethics

As part of the ICL Group, the Company maintains internal systems to ensure compliance with the provisions of relevant laws. The appropriate managers and office-holders of the Group's companies have been informed that their managerial responsibilities include ensuring compliance with by-laws of the company in which they serve. The matters are reviewed regularly by the managements and boards of directors of the various companies. In the operational companies, committees have been set up by the boards of directors to cover issues such as ecology, safety and security, which convene regularly. Among other things, an internal compliance plan has been set up and is applied for operational safety and health, environmental matters, antitrust issues, the securities laws, and sexual harassment and a plan is being prepared for compliance with no-smoking legislation. The boards of directors of ICL and of the segments receive quarterly reports about the various compliance plans. Group-wide centers of excellence are maintained and training sessions are held for relevant managers and employees in these fields, and the application of the provisions of the law is monitored regularly.

At the beginning of 2006, ICL launched a code of ethics for the management level, which is designed to reflect the values of ICL and also to serve as a framework for the application and assimilation of compliance plans. As part of the assimilation process, training sessions were held for relevant managers and office-holders on the code of ethics. The code has been distributed to all the managers in the Company, who confirmed that they have received and read it and will act in accordance with its precepts. Assimilations have been carried out among target populations with the aim of applying it to all managers and employees upon completion of the process. For additional details, see Section 3.3 in the chapter "Description of the corporation's business" for 2007.

11.2 Internal audit

The ICL Group has an internal auditing system to ensure routine compliance with requirements of the law and good business management in the Group companies in Israel and abroad. Below are details about the internal auditor.

11.2.1 The name of the internal auditor in the corporation: Shlomo Ben-Shimol, CPA.

Mr. Ben-Shimol, a qualified internal auditor (CIA), was appointed as internal auditor of the Group in May 2005. The appointment was for a defined term, and was extended in 2007 through 2010.

Mr. Ben-Shimol meets the requirements of Section 146(b) of the Companies Law, meaning that he is not an interested party or officer in the Company, a relative of any of those, or the auditing accountant of the Company or acting on its behalf. He is also in compliance with Section 8 of the Internal Auditing Law, 5752-1992, and does not hold another position in addition to his position as internal auditor. The internal auditor confirmed to ICL that he does not hold another position that creates or is liable to create a conflict of interests with his position as internal auditor at ICL.

Mr. Ben-Shimol is a partner in the firm of Deloitte Breitman Almagor, and provides services on behalf of that firm. In addition, he provides internal auditing services in the subsidiary Dead Sea Magnesium. In the various segments, Company employees fulfill internal auditing functions under the professional guidance of Mr. Ben-Shimol.

11.2.2 Method of appointment: In 2005, the Board of Directors and its Audit Committee approved the appointment of the internal auditor after a round of interviews with a number of auditing firms, with particular attention to the professional qualifications of the candidate, his internal auditing experience overall and in industrial corporations and pubic companies in particular, the international deployment of the Deloitte network and the data bases and means of auditing at its disposal on the subject of internal auditing, as well as their impressions of the candidate and his team.

The appointment was renewed in 2007 by the Audit Committee and the Board of Directors, taking the above consideration and Mr. Ben-Shimol's successful work experience in the Group.

11.2.3 The internal auditor reports to the Chairman of the Board of the Company.

11.2.4 The work plan: The Company and its subsidiaries in Israel and abroad have a multi-year action plan for the years up to 2008 and a detailed annual work plan. As part of the multi-year plan, in 2005-2006 a risk analysis survey was carried out in two parts, and served as the basis for the annual plan. Dozens of managers from headquarters and the subsidiaries in Israel and abroad participated in the survey. The survey included definition of the main processes at the level of the organization and the business units in Israel and abroad, risk exposures were characterized and an assessment was made of the level of exposure to those risks. The results of the survey served as the basis for determining priorities for the internal auditing of the subjects that will be examined in the coming years. The risk analysis and its results were discussed by the management of the Company and by the Audit Committee. As at the date of publication of this report, a revised risk survey has been carried out in the Group among the hundreds of managers of the Group's companies in Israel and abroad.

The preparation of the work plan took into account the results of the risk survey, the requests of the management at ICL and in the segments for certain subjects to be audited, and the remarks and requests of the Audit Committee. The plan, which also considered subjects audited in the past and those to be audited in the future, was approved by the Audit Committee and then by the Board of Directors.

The work plan gives the internal auditor discretion to add to it. In accordance with accepted practice in the Group, the auditor is require to report on deviations from the plan, giving explanations and reasons. The Audit Committee monitors the implementation of the plan.

Below are details about the making of certain transactions and their related audit:

- In 2006 and 2007, ICL made no material sale or acquisition transactions except for the acquisition of the Supresta group of companies (see Section 13.8 below). The mergers and acquisition process was examined as part of the audit plan in 2007 and 2008.
- In 2007, ICL did not enter into any extraordinary transaction, as defined in Section 270 of the Companies Law.
- The auditor was involved in the process of setting procedures for the auditing of ordinary transactions with interested parties who have a personal interest and with controlling shareholders and for identifying related parties and interested parties in order to ascertain grant of the approvals required by law.

11.2.5 **Auditing abroad or of investee corporations**

The internal audit plan encompasses also the corporations which are material holdings of the Company, in Israel and abroad.

11.2.6 **Scope of engagement**

In 2007 the firm, to which the internal auditing function of the Company was outsourced, invested 1,315 hours in internal auditing in the Group. In addition, the internal auditing function was performed in the subsidiaries mainly by employees of the subsidiaries. In 2007 the Company and its subsidiaries engaged 12 fulltime employees for internal auditing. In addition, some immaterial internal auditing services were outsourced..

The number of hours invested is derived from the work plan as approved by the Audit Committee at ICL, and from ad hoc tasks imposed on the internal audit staff by the chairman of the boards of each of the companies in the Group.

11.2.7 **Implementing the audit**

Internal auditing is carried out according to accepted professional standards in the field, professional directives and briefings published by the Chamber of Internal Auditors.
As part of the annual audit plan, the internal auditor exercises quality control for reviewing the auditing work processes of the auditors in the Internal Audit unit. In accordance with Professional Directive 14 of the Israel Chamber of Internal Auditors, the internal auditor maintains a quality assurance program which includes self-audit and external audit of the Internal Audit unit.

The Board of Directors believes, based on the notice of the internal auditor, that the internal auditing work is carried out in accordance with the accepted professional standards for internal auditing.

11.2.8 **Access to information**

The internal audit staff is given free, constant and direct access to the information systems of ICL, including the investee corporations and including financial and other data, both in Israel and abroad.

11.2.9 **The internal auditor's reports**

The reports of the internal auditor are submitted regularly in writing throughout the year. In 2007, 92 reports were submitted at ICL and the subsidiaries. The reports are submitted to the chairman and members of the Audit Committee, the management of ICL and the audited units. The reports of the auditors in investee companies are submitted to the CEO of the subsidiary, the chairman of the audit committee of the subsidiary and to the management of the audited unit. The auditor briefs the Chairman of the Board, the Audit Committee of ICL and the CEO of ICL on the findings of the audits.

In 2007, the Audit Committee convened eleven times at Company headquarters – in February, March, May, June, September and October. In addition, the internal auditor meets regularly with the Chairman of the Board, the chairman of the Audit Committee, the CEO of the Group and the senior management of the Group.

In addition to the above, in 2007 the audit committees of the subsidiaries met 25 times. Meetings of the Audit Committee in the subsidiaries take place regularly throughout the year. The auditing officer in each segment also holds periodic meetings with the internal auditor, the chairman of the board of the subsidiary, the chairman of the audit committee of the subsidiary, the CEO of the subsidiary and the senior management of the Company.

11.2.10 **Board of Directors' assessment of the work of the internal auditor**

The Board of Directors believes, based on the confirmation of the internal auditor and on a comparison with similar companies in Israel and around the world, that the scope of the internal audit work, the continuity of action and the work plan of the internal auditor at headquarters and of the auditors in the investee units, are sufficient in the circumstances, and can achieve of the purpose of internal auditing in the Group. Once a year, the Audit Committee, together with the Group's Management and the internal auditor, examine the scope of the internal audit work.

11.2.11 **Remuneration**

The total financial remuneration paid for the internal auditor and his staff at ICL headquarters amounts in 2007 to $146,000. In addition, $13,000 was paid for auditing services for the segments. In the opinion of the Board of Directors, the remuneration paid to the Internal Auditor does not affect the exercise of his professional discretion.

12. SOCIAL-COMMUNITY INVOLVEMENT OF THE ICL GROUP

ICL focuses its community engagement in the towns and development areas in the Negev – Dimona, Yeruham, Arad and Be’er Sheva, and in the north of Israel – Kiryat Ata and Haifa, where most of the employees of the companies in the Group live, in recognition of the need to be involved in and to support the needs of the community, cooperation and enrichment of residents, and mutually, of employees.

ICL’s efforts are mainly in the Negev, for disabled children, women and children at risk, populations in socioeconomic distress and those with special medical needs. The financial contribution of the ICL Group in 2007 amounted to approximately $ 2.8 million (compared to $ 2.3 million in 2006, an increase of 22%). This does not include the hours of work volunteered by employees, sometimes at the expense of their work-time, particularly activities in clubs (see below). Some of the projects in which ICL, its managers, employees and their children, as well as ICL pensioners, are involved, are described below:

12.1 Adoption of a network of clubs for children at risk

In 2001, the Boards of Directors of the Israel Corporation and ICL formulated a strategic plan for the Group’s social and community involvement. The main project is the “adoption” of a network of clubs for children aged 3 – 16 who are at risk. At the end of December 2005, the Board of Directors of the Company extended the project for another five years, and increased its budget allocation by about 40%, in response to the ever-increasing numbers of clubs serving hundreds of children.

Pursuant to the resolution, the companies undertook to assist for another five years in the development and upkeep of the clubs, both by material means (money and equipment), and with educational and value content by means of active and close contact of ICL employees and retirees and their participation in club activities. Each of the principal ICL companies adopted a specific town in the Negev or the North of the country, and each production facility or department of each company adopted one of the clubs in the company’s adopted town. The connection is on a warm, personal basis, and employees act as tutors, friends and leaders and represent the warm parental figure that these children often lack. These clubs are a therapeutic framework, a model for the organized home and functional family, intended for children aged 6 – 13. The children who attend these clubs are defined as being at risk, whose parents are unable to look after them during the day for various reasons – financial, violence, neglect, disfunction, and so on.

The number of clubs adopted by ICL companies has grown steadily from the six "pilot" clubs adopted in 2001 in Yeruham, Be’er Sheva, Dimona, Arad, Kiryat Ata and Haifa, which are near ICL plants, to 50 clubs at the end of 2006, as well as a new model of club for older children. In this context, ICL is also adopting the Be’er Sheva branch of the Down’s Syndrome Children’s Association, as well as "warm homes" for youth in distress in Be'er Sheva, Dimona and Arad.

The active contribution includes work by teams of employees – repairs in the club buildings, environmental development, donations of computers, domestic appliances, games and books, as well as enrichment activities, hikes, and activities on holidays and vacations.

In the reporting year, the number of clubs adopted increased gradually to more than 50. ICL companies donated about NIS 1.33 million directly to the clubs, compared with NIS 1.1 million last year, which was used to finance enrichment activities, hikes and various events. In addition, thousands of volunteer hours were donated by employees, some in the spare time of employees, retirees and their families.

12.2 Initiatives and response to various issues

Another important contribution of ICL this year was participation in the life-saving drug fund of the Israel Corporation Group, ICL, Zim Integrated Shipping Services Ltd. and Mr. Sami Ofer, in the amount of about NIS 35 million. ICL's part is NIS 5 million, of which NIS 3 million has been expended, NIS 0.9 million in 2007, with the balance probably to be paid in 2008, depending on the needs of the fund. .

In December 2005 and January 2006 the boards of directors of ICL and the parent company – Israel Corporation, approved a donation of NIS 1 million (ICL) and NIS 1.5 million (Israel Corporation) to "Alut" for the construction of a permanent home for autistic adults and teenagers in Be'er Sheva. Construction of the home was started in 2006. In 2006, ICL decided to increase its donation by an additional NIS 1 million.

Another contribution in 2005 – of about half a million shekels, was to Soroka Hospital in Be'er Sheva, which serves the residents of the entire Negev region, among them ICL employees, plants, families and the community in which the Group's companies operate. For the past ten years, once a year, the donation collected is used for the construction, development and equipping of one of the hospital’s departments. In the summer months, the children of employees assist in various activities and tasks in the hospital, in clubs and in other community activities, in cooperation with the municipalities. The children are paid by ICL companies.

ICL companies waive the holiday gifts (New Year and Passover) traditionally distributed to colleagues and others, and donate instead food parcels and gift vouchers to needy families in the Negev, and distribute parcels, in cooperation with the "Haim" society, to children with cancer who are hospitalized or in the daily care of the Soroka Medical Center in Be’er Sheva.

ICL also assists and contributes both money and money equivalents to various support organizations operating in the south of the country. These include the "Haim" society for children with cancer and their families, "Al-Sam" in Be'er Sheva, "Nitzan" for children with learning difficulties, the Bat Dor Dance Company for children in Be'er Sheva, the Arad branch of the Cancer Association, equipment for "Yad Sarah" in Be'er Sheva, food parcels for the needy in Be'er Sheva, Dimona, Arad and Yeruham at holiday times, "B'Terem" – a road safety organization, an aid fund for new immigrants in the Negev, and other associations and activities operating in the towns and communities of ICL employees in the Negev. In 2007, support increased for the Bedouin population in the Negev, such as empowerment activities for youth and students, promoting environmental issues, recycling, and treatment for those with limited abilities. Together with the Committee for the Welfare of Soldiers, ICL Group also adopts a number of army units and bases, where they hold joint activities for the well-being of soldiers. This year ICL also assisted the Nature Protection Society and the National Parks Authority in various projects for the preservation of nature, preparing hiking trails, and the conservation of hawks and other birds of prey.

ICL continues its support of the Be'er Sheva branch of “Inbal”, a support center for children who are victims of sexual abuse. ICL has undertaken to donate $50,000 per year for five years, for the financing of Inbal’s activities. ICL also initiated the opening of a branch of “Yated” in the south, an organization for children with Down’s syndrome, and undertook to donate $30,000 per year for another three years for its operation.

Another area in which ICL participates is the "A Password for Every Child" enterprise, which is led and financed by the Ofer Group and Israel Corporation, in which schools in development towns are connected to the computer network, create user networks at the class, school and town level, so that every child can use the dedicated network and the courseware and information in it. ICL has undertaken leadership of the project in Dimona.

Employees and managers of ICL companies are actively involved in public bodies in the community at Yeruham, Be'er Sheva, Dimona and Arad. ICL pensioners are also involved in Youth Club activities, Yated and other voluntary bodies.

13. EVENTS DURING THE PERIOD

13.1 On January 28, 2007, the Board of Directors of the Company approved a plan for a private allocation, without consideration of 12.9 million options exercisable for Company shares, to a group of officers and other senior employees in managerial positions in the Company and the companies under its control, in Israel and abroad (see Section 5.2E in the chapter "Description of the corporation's business" in the Periodic Report). On 28 January, 2007, approximately 5.4 million options from the aforementioned plan were allocated, of which 2.2 million options to the CEO of the Company. On March 27, 2007 approximately 6.4 million options from the plan were allocated. The unallocated options expired on 28 March, 2007.

13.2 On March 27, 2007, the Board of Directors of the Company resolved to distribute the net profit of the Company for 2006 as a dividend, after taking into account a dividend on $90 million that was distributed on September 19, 2006 in respect of part of the year's profits. Accordingly, on April 25, 2007, a dividend of $283.9 million was distributed ($283.4 million net of the part of a consolidated company).

On May 27, 2007, the Board of Directors of the Company resolved to distribute a dividend of $66.8 million (approximately $66.7 million net of the part of a consolidated company), which was distributed on June 18, 2007.

On August 21, 2007, the Board of Directors of the Company resolved to distribute a dividend of $88.1 million (approximately $87.9 million net of the part of a consolidated company), which was distributed on September 18, 2007.

On November 19, 2007, the Board of Directors of the Company resolved to distribute a dividend of $104.8 million (approximately $104.6 million net of the part of a consolidated company), which was distributed on December 17, 2007.

On March 27, 2008, the Board of Directors of the Company resolved to distribute a dividend of $115 million (approximately $114.8 million net of the part of a consolidated company), which will be distributed on April 30, 2008.

13.3 In January 2008, Mr. Nir Gilad was appointed Chairman of the Board, replacing Mr. Yossi Rosen, who remains as a director of the Company.

13.4 In November 2007, ICL announced the following new appointments:
Mr. Asher Greenbaum was named Deputy CEO and COO, Mr. Yossi Shachar was named Deputy CEO – Mergers and Acquisitions, Mr. Danny Chen was named CEO of ICL Fertilizers and Mr. Nissim Adar was named CEO of ICL Industrial Products, Mr. Herzl Bar-Niv was named VP for International Taxation, Mrs. Osnat Sessler was named VP for Investor Relations, Mr. Amir Benita was named Comptroller of the Company.

ICL also announced that Mr. Alexander Paz, who served as VP Mergers, Acquisitions and Strategy, would be promoted to CEO of a subsidiary of ICL.

In January 2008, Deputy CEO Mr. Shuki Gold announced his retirement.

13.5 On August 6, 2007, ICL entered into a transaction with a group of 17 banks from Europe, the U.S. and Israel, whereby those banks granted ICL $725 million of credit for a period of 5 years (bullet), at LIBOR + 0.45%. The new loan replaces, inter alia, a similar loan of $250 million taken in 2005 at LIBOR + 0.6% for 5 years, which was repaid at the same time as an early repayment.

13.6 Pursuant to a resolution of the Board of Directors of the Company and the recommendation of the Audit Committee, the service of the Internal Auditor was extended for an additional three years, ending May 2010. Mr. Shlomo Ben-Shimol, of Deloitte & Co., has served as Internal Auditor at ICL since May 2005.

13.7 In July 2007, ICL Fertilizers signed an agreement with an Indian partner for a joint venture which will be held in equal parts by the parties, for the manufacture and distribution of specialty fertilizers in India based on a technology of ICL Fertilizers.

13.8 On August 13, 2007, a transaction was closed with Supresta Holdings LLC ("the Seller"), a holding company of Ripplewood Holdings LLC, to acquire equity interests in Supresta LLC ("Supresta"), a company registered in Delaware, USA, which manufactures and markets wildfire safety products and other phosphorus-based products. The cost of the acquisition amounts to $361.5 million (including transaction costs).

Supresta, the world leader in the manufacture and marketing of phosphorus-based wildfire safety products, was established in 2004 with the acquisition of this operation from Akzo Nobel by the Seller, and has more than 300 employees. It owns two plants – one in the USA and one in Germany. Supresta has more than 80 phosphorus-based products which are used as flame retardants for polyurethane and engineering resins, plasticizers for the plastics industry and for functional fluids, power stations and other uses.

13.9 In September 2007, ICL Performance Products USA was called to testify before a grand jury which was investigating suspected violation of antitrust laws, documents relating to the sale of STPP (a salt derived from phosphoric acid), in relation to the period commencing in 2002 and ending in 2005. According to a report published by another company, the investigation covers a number of American companies in the same field. ICL had not manufactured STPP in the USA prior to acquiring the operations and assets of Astaris in November 2005. In December 2007 ICL Performance Products received a letter of clarification from the US Department of Justice (DOJ), in which the DOJ relates to ICL Performance Products as a witness rather than a suspect.

13.10 In October 2007, a claim was filed against ICL Performance Products in a court in Missouri, USA, by a drug company. The drug company alleges that it was compelled to recall its finished products due to an ostensibly defective product which was supplied by Astaris (before its operations were acquired by ICL Performance Products) and by ICL Performance Products and which was the raw material in the drug company's finished product. The drug company is suing for damages and compensation of more than $15 million. ICL Performance Products is of the opinion that Astaris and the Seller of Astaris' operations and assets to ICL Performance Products is liable for any damage caused, if caused. At this preliminary stage of the proceeding, ICL Performance Products is unable to assess whether it might have real exposure in respect of this claim.

13.11 A claim was filed in the Be'er Sheva District Court in November 2007, together with an application for its certification as a class action, against Bromine Compounds Ltd., a company from the ICL Industrial Products segment. The plaintiffs allege that hazardous materials are emitted from the defendant's plant. According to the plaintiffs, the defendants should pay the residents of the Negev "financial compensation in respect of harm to their free will and putting their health at risk", and also "to establish a fund for the purpose of medical supervision". The amount of the class action is NIS 1.086 million. At this preliminary stage, ICL is unable to assess the chances of the claim, if any, or of the application for its certification as a class action.

13.12 In November 2007, IDE technologies Ltd., a company held by ICL and the Delek Group in equal parts, announced its intention to offer 25% of is shares outside Israel and to register GDS's in the Official List on the LSE.

14. EVENTS AFTER THE BALANCE SHEET DATE

14.1 In January 2008, ICL Performance Products acquired from the Henkel Group most of the assets and operations of a water treatment business unit for approximately €60 million ($89 million), subject to adjustments, mainly in respect of 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 will be purchased in the French company Henkel Concorde S.A., which operates in the same field. In the wake of 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 approximately €52 million ($77 million), its 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 resources and from bank credit. 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.

14.2 On March 25, 2008, a fully-owned subsidiary of the Company has signed an agreement (the "Agreement") (guaranteed by ICL) with Yam Tethys Partners for supply of natural gas for ICL's manufacturing sites in Israel ("ICL Group"). Yam Tethys Partners consists of Delek Drilling Limited Partners, Avner Oil Discovery Limited Partners, Delek Investments and Properties Ltd., and Nobel Energy Mediterranean Ltd.

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

Supply will begin when: the line currently being constructed to bring gas to the South is completed, which according to the information given by the gas transporter company; Israel Natural Gas Line Ltd, will probably be towards the end of 2008 and when the ICL Group converts it facilities to consume natural gas, a process that is planned to start gradually with the Sodom facilities (which will consume most of the gas of the ICL Group) from the end of 2008. The supply agreement will expire at the earlier of:

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

The period set out in item 1 will be automatically extended by one additional 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.

According to the Agreement, the price of the natural gas will be based on a formula applied to the prevailing fuel oil market prices, with a discount, subject to both “floor” and “ceiling” prices. The ICL Group has committed to purchase yearly minimum quantities on a “take or pay” basis, at quantities and conditions set out in the Agreement.

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

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.

ICL estimates that the upgrade to natural gas will bring efficiency in its energy consumption, reduction in maintenance costs, energy costs and other costs, directly and indirectly, in the amount of more than $100 million per year. This savings estimate is based on full year consumption after completion of connection and conversion of the relevant facilities to natural gas and the current fuel prices as of the date of the Agreement. The above estimate is as of today, and is not necessarily an indication for the future.

The Agreement is conditional upon the receipt of the necessary permits to erect connection facilities between ICL facilities and the gas line and the signing of an ongoing gas transportation agreement with Israel Natural Gas Line Ltd

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.

March 27, 2008

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Akiva Mozes	Nir Gilad
CEO	Chairman of the Board