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 SEPTEMBER 30, 2007

Following is the Directors' Report of Israel Chemicals Ltd. (ICL or the Company) for the period ended September 30, 2007.

1. Description of the Company and its business environment

1.1 Description of ICL

Israel Chemicals (the Company or ICL) is a multinational company that operates mainly in the areas of fertilizers and specialty chemicals, in three segments – fertilizers, industrial products and performance products.

ICL's operations are based primarily on natural resources – potash, bromine, magnesium and sodium chloride from the Dead Sea, and phosphate rock from the Negev Desert, all on the basis of concessions and licenses from the State of Israel. Operations are also based on potash and salt mines in England and Spain under leases and licenses from the competent authorities in those countries. ICL is active in the production of these minerals, in their sale throughout the world, and also in the development, manufacture and marketing of downstream products based primarily on these raw materials or which complement them..

ICL has a key position in the potash, bromine and purified phosphoric acid markets and in the markets for specialty phosphates, phosphorus-base flame retardants and wildfire retardant chemicals. Potash is a core component of fertilizers. Bromine serves a wide range of applications, primarily in flame retardants. ICL's products are used mainly in agriculture, electronics, food products, oil and gas drilling, water purification and desalination, and in the detergent, paper, cosmetics, pharmaceutical, automotive, aluminium, furniture and other industries. ICL has decades of accumulated experience in most of its businesses.

ICL has direct access to most of the raw materials required for its activities, at low cost and high quality, by virtue of the exclusive concession granted to ICL by the State of Israel for the extraction of minerals from the Israeli side of the Dead Sea, in return for payment of royalties to the State. The costs of production of the potash and bromine extracted from the Dead Sea by ICL are relatively lower than the costs of other producers in the world who do not have access to sources like the Dead Sea.

ICL's main production facilities are located in Israel, Germany, the United States, Holland, Spain, England, China, Brazil and France. ICL has other production facilities, inter alia in Austria, Belgium, Turkey, Canada, Argentina, and Australia.

The overseas operations of ICL are mainly the manufacture of products which integrate with or are based on the operations of ICL in Israel or are closely related to them. Approximately 94% of ICL's products are sold outside Israel.

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

Approximately 6% of ICL's products are sold in Israel. For these sales, regarding certain products, ICL and some of the ICL companies have been declared a monopoly in Israel.

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

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

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

A. **ICL Fertilizers** – ICL Fertilizers produces potash from the Dead Sea and mines, and produces potash and salt from underground mines in Spain and England. ICL Fertilizers refines the potash into various grades and sells it worldwide, and uses some of it in the manufacture of complex fertilizers.

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

B. **ICL Industrial Products** – ICL Industrial Products manufactures bromine from an end-brine created as a by-product of the potash production process in Sedom, as well as bromine-based compounds. ICL Industrial Products is the world's leading manufacturer of bromine, producing about 30% of total global production. ICL Industrial Products uses most of the 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 USA. In August 2007, ICL Industrial Products acquired Supresta, which manufactures and sells mainly phosphorus-based flame retardants from its plants in the USA 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 acid is used in the manufacture of downstream products of high added value – phosphate salts, 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. Most of ICL Performance Products' production takes place at sites in Germany, the U.S.A., Brazil, Israel and China.

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

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

1.2 Business environment and profitability of ICL

ICL is a multinational company. Its business results are influenced by global economic trends, changes in trading and financing conditions, and fluctuations in exchange rates. The demand for ICL's products is influenced, inter alia, by the demand for basic agricultural products and by the global economic situation.

ICL takes steps to adjust its marketing and production policy to the circumstances in world markets.

ICL is focusing on improving its cash flow, diversifying its sources of financing and continuing with its savings and efficiency measures.

The vast majority of ICL's sales are made in foreign currency, mainly US dollars and the euro. A portion of its operating expenses in Israel are denominated in NIS. Therefore, devaluation of the NIS against the US dollar has a positive impact on ICL's profitability, while appreciation has the opposite effect. The strengthening of the Israeli shekel against the dollar adversely affected the operating income of ICL compared with the same period last year, by approximately $30 million. ICL has more revenues than expenses in Euro. Therefore, appreciation of the Euro against the dollar has a positive impact on ICL's profitability, and devaluation has a negative impact. ICL hedges against some of its currency exposure. The appreciation of the Euro against the US dollar adversely affects the competitiveness of ICL's subsidiaries whose operating currency is the Euro, compared with companies whose operating currency is the dollar.

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

Conditions in the global agricultural market, which have a material effect on the demand for fertilizers, improved. Recent years have seen an upward trend in global consumption of grains (such as cereals, rice, soybean and maize), resulting from natural population growth and from the change in the composition of food consumption (increased consumption of meat) as standards of living rise, especially in developing countries. In addition, the sharp rise in energy prices, environmental considerations and the aspiration of western countries to reduce dependence on imported fuel have resulted in an increasing global tendency to switch to fuel made from agricultural products (biofuels).These trends have led to a considerable rise in the prices of agricultural produce during the last year, an increase in the areas of grains planted worldwide and higher yields per agricultural unit, in particular by increased application of fertilizers. As a result, the demand for fertilizers increased and the prices of fertilizers have risen sharply.

The bromine market is greatly influenced by the level of activity in the electronics and the oil and gas - drilling markets, and by the restrictions imposed on the use of methyl bromide following implementation of the Montreal Protocol. Commencing in the third quarter of 2006, the demand for flame retardants declined, while concurrently, due to the relatively high prices of bromine and bromine compounds, Chinese production of bromine and some flame retardants increased greatly, with a resulting increase in the supply of those products. These trends are still ongoing today. Sales of chemicals used for oil drilling decreased because of a decline in use in the Gulf of Mexico region and due to intensifying competition from Chinese manufacturers.

The activity of ICL Performance Products is affected by competition in some of its target markets and in Europe is also influenced by changes in the rate of exchange. Appreciation in the average rate of exchange of the Euro against the US dollar compared with the same quarter of last year, harmed competitiveness in some of its production activity in Europe. In the reporting period, revenue of ICL Performance Products increased as a result of higher sales and price increases for some of the products.

Marine transportation expenses are a significant component in the expenses of ICL Fertilizers. In the first half of 2006, marine transportation prices dropped sharply, while in the second half of the year, prices rose. Since the beginning of 2007, marine bulk transportation prices have risen sharply, reaching all-time high levels.

The increase in transportation prices as noted above offset part of the profits derived from a rise in the selling price of most types of fertilizers.

ICL Fertilizers exports its products through dedicated bulk facilities in Israel's ports (Ashdod and Eilat). The facilities were erected by ICL Fertilizers and are operated by the port companies. There have recently been disruptions in operating and loading at the ports, particularly Ashdod, which have caused delays in shipments at peak times. As a result, not all of the potash and fertilizers planned for sale was actually shipped. ICL Fertilizers is working with the port companies to normalize the operating framework in a way that solves these problems.

The financial statements at September 30, 2007 also include Supresta, the acquisition of which wa closed on August 13, 2007. The results of operations for the period include the results of Supresta for the period from the date of acquisition, August 14, 2007, to the date of the financial statements.

1.3 This Directors' Report is attached to the interim financial statements for the period ended September 30, 2007, on the assumption that those financial statements are before the reader. The Directors' Report is in a condensed format, since it is assumed that the reader also has access to the Periodic Report for 2006.

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 same period last year, in millions of dollars.

	1-9/2007		1-9/2006		7-9/2007		7-9/2006		2006	
$	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales
Sales	2,889.2	100.0	2,418.5	100.0	1,043.4	100.0	854.3	100.0	3,258.2	100.0
Gross profit	1,038.7	36.0	828.7	34.3	384.8	36.9	289.9	33.9	1,153.2	35.4
Operating income	491.2	17.0	388.7	16.1	185.9	17.8	128.3	15.0	536.4	16.5
Pre-tax income	451.4	15.6	377.6	15.6	163.7	15.7	132.7.	15.5	494.9	15.2
Net income	371.0	12.8	283.7	11.7	149.7	14.3	94.8	11.1	373.9	11.5
EBITDA*	640.9		543.3		234.4		186.7		735.7	22.6
Cash flow from current operations	377.1		261.3.		108.1		122.5		358.6	11.0
Investments in property, plant and equipment, less grants	125.1		92.7		39.2		30.8		141.0	

(*) Calculated as follows in millions of dollars:

	1-9/2007	1-9/2006	7-9/2007	7-9/2006	2006
Net earnings	371.0	283.7	149.7	94.8	373.9
Depreciation and deductions	144.8	129.2	50.6	42.8	174.5
Financing expenses, net	34.2	25.1	19.3	6.6	39.3
Taxes on income	87.7	105.3	14.7	42.5	136.7
Special or one-off expenses	3.2	-	-	-	11.3
Total	640.9	543.3	234.3	186.7	735.7

2.2 Results of operations: January – September 2007

Sales

Sales in the reporting period amounted to $2,889.2 million, compared with $2,418.5 million in the same period last year, an increase of approximately 19.4%. The increase reflects mainly an increase in the selling price of potash and phosphate fertilizers, as well as increased sales of potash, which were offset by a decline in the sales quantities of some of the bromine compounds. Sales for the period include $36 million from the sales of Supresta for the period from its acquisition to the end of the period.

Below is a breakdown of sales by geographical region:

	1-9/2007		1-9/2006	
	$ millions	%	$ millions	%
Israel	174.4	6.0	151.6	6.3
North America	586.8	20.3	574.5	23.8
South America	344.9	11.9	249.6	10.3
Europe	1,080.7	37.4	896.3	37.1
Asia	607.5	21.0	458.7	19.0
Rest of the world	94.9	3.4	87.8	3.5
Total	2,889.2	100.0	2,418.5	100.0

The breakdown of sales in the first three quarters of 2007 shows an increase in sales in all regions. Particularly noteworthy is the increase in South America (approximately 38%), Asia (approximately 32%) and Europe (approximately 21%), stemming mainly from the increased sales in the fertilizer segment to these regions, as well as the appreciation of the Euro against the dollar in Europe.

Gross profit

Gross profit amounted to $1,038.7 million, an increase of $210.0 million (approximately 25%) compared with the same period last year. The gross profit out of sales turnover was 36.0%, compared with 34.3% in the same period last year.

The increase in gross profit compared with the same period last year stems mainly from the rise in the selling prices of potash and phosphate fertilizers and higher sales of these products. Conversely, the increase in gross profit was partially offset by the decline in production and sales of some bromine compounds, by an increase in shekel expenses in dollar terms as a result of the appreciation of the shekel against the dollar, and by an increase in the prices of some inputs and raw materials.

Sales and marketing expenses

Sales and marketing expenses amounted to $406.9 million, an increase of about $83.2 million compared with the same period last year. The increase in these expenses stems from an increase in sales of potash and fertilizers in which the transportation component is high, and a decline in sales of bromine compounds in which the transportation component is relatively low, and from a rise in the prices of bulk marine transportation.

General and administrative expenses

General and administrative expenses totalled $112.2 million, an increase of about $22.0 million compared with the same period last year. The strengthening of the shekel and the euro against the dollar led to an increase in expenses in this item in dollar terms. In addition, administrative expenses include an expense of approximately $6.4 million due to spreading of the benefit inherent in the stock options plan published at the beginning of 2007 over the term of entitlement, as required under Standard 24. Administrative expenses at Supresta, 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 $28.4 million, an increase of $2.4 million compared with the same period last year. The increase stems mainly from increased shekel expenses and Euro expenses in dollar terms as a result of appreciation of those currencies against the dollar, and from the inclusion of Supresta data. .

Operating income

Operating income increased by $102.5 million compared with the same period last year, reaching $491.2 million. The increase stems from the increase in gross profit noted above, which was partially offset by an increase in overhead which was due, among other things, to the appreciation of the shekel against the dollar, and from an increase in transportation expenses.

The rate of operating income out of sales turnover is 17.0%, compared with 16.1% in the same period last year. This improvement in operating income margins derives mainly from the sharp rise in the selling prices of potash and phosphate fertilizers.

Financing expenses

Net financing expenses amounted to approximately $34.2 million, compared with $25.1 million in the same period last year, an increase of $9.1 million. The rise in financing expenses stems mainly from the rise of approximately $100 million in the average net debt balance in the period, and from a rise of about 0.5% in the dollar interest rate.

Tax expenses

Tax expenses amounted to $87.7 million, compared with $105.3 million last year. The tax rate on pre-tax profits 19.4%, compared with 27.9% last year. The decline in the tax rate stems from Company income taxable at a reduced rate in respect of some of its operations in Israel, and from the decrease in the tax rate in Germany during the third quarter, which reduced the balance of liabilities in respect of deferred taxes of consolidated companies.

Net earnings

Net earnings amounted to $371.0 million, compared with $283.7 million in the same period last year, and increase of 30.8%.

2.3 Results of operations: July – September 2007

Sales

Sales of ICL in the quarter amounted to $1,043.4 million, compared with $854.3 million last year, an increase of approximately 22.1%.

The increase in the Group's sales is mainly due to the increased revenues in the fertilizer segment as a result of higher quantities of potash sold, as well as an increase in the selling prices of potash and phosphate fertilizers. Sales of ICL Performance Products also increased. Conversely, the decline in sales of bromine compounds offset part of the increased sales. Sales for the quarter also include $36 million from the sales of Supresta for the period from its acquisition to the end of the quarter.

Below is a breakdown of sales by geographical region:

	7-9/2007		7-9/2006	
	$ millions	%	$ millions	%
Israel	58.8	5.6	49.7	5.8
North America	219.9	21.2	203.6	23.8
South America	134.1	12.9	121.5	14.2
Europe	355.0	34.0	273.7	32.0
Asia	241.3	23.1	181.8	21.3
Rest of the world	34.3	3.3	24.0	2.9
Total	1,043.4	100.0	854.3	100.0

The breakdown of sales indicates an increase in sales in the present quarter in all target regions. Increased sales of potash led to an increase in sales in Asia, South America and Europe.

The increase in sales to Europe stemmed, inter alia, from the appreciation of the Euro against the dollar. The increase in Europe and in North America is also attributable to the inclusions of the sales of Supresta in this quarter for the first time.

Gross profit

Gross profit amounted to $384.8 million, an increase of $94.9 million compared with the same quarter last year. The gross profit margin out of sales turnover increased from 33.9% to 36.9%. The increase in profit and the improved profit margin stems mainly from the rise in potash and phosphate fertilizer prices, which was partially offset by the rise in shekel expenses in dollar terms and from a rise in the prices of some of the raw materials and energy products.

Gross profit for the quarter was adversely influenced by $4.0 million as a result of the accounting treatment in the acquisition of Supresta. Under the accounting principles, the inventory at Supresta at the time of the acquisition is stated at its value, which is higher than the cost at which inventory is usually stated. The sale of this inventory has an adverse effect on the financial results of the Company.

Sales and marketing expenses

Sales and marketing expenses amounted to $147.7 million, an increase of approximately $25.6 million compared with the same period last year, mainly as a result of the increase in sales of the fertilizers segment and the sharp rise in bulk marine transportation costs.

General and administrative expenses

General and administrative expenses totalled $41.2 million, an increase of $10.8 million compared with the same period last year. This is mainly due to the appreciation of the shekel and the Euro against the dollar, and an expense of approximately $2.8 million due to spreading the benefit inherent in the stock options plan published at the beginning of 2007 in accordance with Standard 24, and the first-time inclusion of general and administrative expenses of Supresta .

Research and development expenses

R&D expenses (net of grants from the Chief Scientist) amounted to $10.1 million, an increase of $1 million compared with the same period last year, mainly as a result of the acquisition of Supresta and the effects of appreciation of the shekel and the Euro against the dollar.

Operating income

Operating income in the quarter increased by $57.6 million compared with the same period last year, reaching $185.9 million. The operating income rate from the sales turnover amounted to 17.8% compared to 15.0% last year. The rise in income stems, as noted above, from the rise in the prices of potash and phosphate fertilizers.

Financing expenses

Net financing expenses amounted to $19.3 million, compared with $6.6 million in the same quarter last year.

The increase in financing expenses is due mainly to an increase of approximately $260 million in the average balance of liabilities in the quarter and to a rise of approximately 0.5% in the average dollar interest rate for the period. The appreciation of the shekel against the dollar also contributed to the increase in financing expenses.

Taxes on income

Tax expenses in the quarter amounted to $14.7 million, which is approximately 9.0% of the pre-tax profit. The relatively low tax rate stems from the Company's relatively high proportion of revenues taxable at a reduced rate in respect of some of its operations in Israel, and from the effects of a lower tax rate in Germany on the balance of liabilities in respect of deferred taxes of consolidated companies.

Net earnings

Net earnings in the quarter amounted to $149.7 million, compared with $94.8 million in the same period last year, an increase of54.9%.

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 operating segment	1-9/2007		1-9/2006		7-9/2007		7-9/2006	
	$ millions	% of total sales	$ millions	% of total sales	$ millions	% of total sales	$ millions	% of total sales
ICL Fertilizers	1,472.1	48.2	1,051.0	40.6	538.9	48.9	398.5	43.8
ICL Industrial Products	639.1	20.9	663.8	25.7	226.1	20.5	195.5	21.5
ICL Performance Products	828.7	27.1	776.5	30.0	301.3	27.4	279.0	30.6
Others and setoffs	(50.7)		(72.8)		(22.9)		(18.7)	
Total	2,889.2		2,418.5		1,043.4		854.3	

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

Operating income by operating segment	1-9/2007		1-9/2006		7-9/2007		7-9/2006	
	$ millions	% of total sales	$ millions	% of total sales	$ millions	% of total sales	$ millions	% of total sales
ICL Fertilizers	331.1	22.5	163.6	15.6	144.7	26.9	61.6	15.5
ICL Industrial Products	101.9	15.9	177.9	26.8	20.0	8.8	46.7	23.9
ICL Performance Products	73.7	8.9	68.9	8.9	28.9	9.6	27.0	9.7
Other	(15.5)		(21.7)		(7.7)		(7.0)	
Operating income (consolidated)	491.2	17.0	388.7	16.1	185.9	17.6	128.3	15.0

3.1 ICL Fertilizers

Sales

The volume of sales in the segment in 2007 amounted to approximately $1,472.1 million, an increase of approximately $421.1 million (40.0%) compared with the same period last year. The increase in sales turnover stems from an increase in the prices of potash and phosphate fertilizers and a sharp increase in sales of potash compared with the same period last year, when sales of potash decreased due to protracted negotiations with Chinese and Indian customers.

Operating income

Operating income in the segment amounted to approximately $331.1 million, an increase of approximately $167.5 million (102.4%) compared with the same quarter in 2006. The percentage of operating income out of sales was approximately 22.5%, compared with 15.6% last year.

The improvement in operating income and profit margins stems mainly from the sharp rise in selling prices. However, operating income was adversely affected by the increase in energy expenses and the rise in the prices of principal raw materials, a sharp rise in marine transportation prices and the appreciation of the shekel against the dollar.

Potash

Revenues from the segment include sales of potash from Israel, Spain (Iberpotash) and England (Cleveland Potash).

Potash – Revenue and Income

$ millions	1-9/2007	1-9/2006	7-9/2007	7-9/2006	2006
Revenue*	937.2	623.9	357.8	232.5	925.1
Operating income	252.5	145.8	106.8	52.1	245.1

* Including revenue from inter-segment sales.

The increase in revenue for the period compared with the same period last year, stems from a significant increase in the quantity of potash sold and a rise in the selling price compared to the same period last year.

Potash – Production and Sales

Thousands of tons	1-9/2007	1-9/2006	7-9/2007	7-9/2006	2006
Production	3,657	3,671	1,264	1,171	5,086
Sales to external customers	3,672	2,577	1,349	999	3,912
Sales to internal customers	199	168	77	53	236
Total sales (including internal sales)	3,961	2,745	1,426	1,052	4,148

The slight decrease in potash production in the period stems mainly from the decrease in production in Israel and in England, mainly due to problems in the availability of mining equipment. Potash production increased in the quarter compared with the same quarter last year, as a result of increased production in Israel and Spain.

At the beginning of 2006, the Suria mine in Spain was closed. ICL .Fertilizers is considering a number of options for further reorganization of its mining operations in Europe.

Fertilizers and Phosphates

Revenue for these items stems 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 differing proportions of nitrogen, phosphorus and potassium), phosphoric acid used as a raw material for the production of fertilizers (green acid), as well as other products.

Fertilizers and Phosphates – Sales Revenue and Income

Millions of dollars	1-9/2007	1-9/2006	7-9/2007	7-9/2006	2006
Revenue*	571.6	455.7	196.0	175.0	594.4
Operating income	78.8	16.5	37.7	8.6	19.7

* including inter-segment sales

Revenue in the period is higher than in the previous year due to a rise in the selling prices of fertilizers.

In the quarter, the rise in selling prices was partially offset by smaller quantities sold as a result of logistics constraints in transporting products to the ports in Israel as well as constraints at the ports in Israel..

The improvement in operating income stems from a rise in the selling prices of fertilizers. However, operating income was adversely affected by appreciation of the shekel against the dollar, a rise in energy prices and a rise in marine bulk transportation prices. In the third quarter of the year, there were also signs of a rise in the prices of sulfur, which had an adverse effect on profitability in that quarter.

Fertilizers and Phosphates – Production and Sales

Thousands of tons	1-9/2007	1-9/2006	7-9/2007	7-9/2006	2006
Phosphate rock					
Production	2,269	2,262	776	742	2,949
Sales*	219	327	42	69	421
Fertilizers					
Production	1,299	1,191	438	421	1,614
Sales*	1,350	1,286	399	529	1,656

* To external customers

Phosphate rock is produced according to demand, both for internal uses and for sales to outside customers, while maintaining suitable stock levels. The volume of sales of rock in the period stems partially from the segment's policy of diverting most of the output to internal uses of higher added value in the manufacture of acids and fertilizers.

3.2 ICL Industrial Products

Sales

Sales in this segment in the reporting period amounted to approximately $639.1 million, a decrease of about $24.7 million compared with the same period last year. The decrease in sales compared to the same period last year, stems from smaller quantities sold.

Sales in the third quarter amounted to $226.1 million, an increase of $30.7 million compared to the same quarter last year. Eliminating Supresta's sales of $36 million, which were consolidated for the first time in the quarter, sales in the third quarter decreased by $5.3 million compared with last year. The decrease in sales was mainly in sales of flame retardants to the electronics market.

Revenue from flame retardants decreased during the period due to smaller quantities sold following a slowdown in the printed circuits market and intensifying competition from Chinese producers.

Revenue from inorganic bromine products decreased for the period, particularly clear brines, as a result of a decrease in quantity sold. Nevertheless, sales in the quarter increased compared with the same quarter last year.

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

In biocides for water treatment, revenue decreased compared with the same period last year, mainly due to the relatively cool summer weather in North America until August. The decrease was partially offset by a relatively long swimming-pool season in North America.

Revenue from sales of chlorine-based products from the Dead Sea (Dead Sea Salts) increased slightly, mainly due to larger sales of magnesium chloride.

An increase was recorded in sales of magnesia products, particularly calcined and special products.

Operating income

Operating income in the segment for the reporting period was approximately $101.9 million, compared with operating income of $177.9 million in the same period last year.

The decrease stems mainly from a decrease in quantities sold and also in the quantity produced, which was planned to adjust production to demand. Operating income was also adversely affected by a rise in shekel expenses, particularly as a result of the appreciation of the shekel against the dollar, and by the rise of prices of some inputs.

The results of ICL Industrial products include the results of Supresta for the six-week period from August 14, 2006 to the end of the quarter. Supresta's operating turnover for that period is $36 million. The operating loss is $2.5 million, due to the effects of the acquisition accounting in respect of inventory, as explained in Section 2.3 above. Eliminating this accounting treatment effect, operating income is $1.5 million,

3.3 ICL Performance Products

Sales

Sales in this segment amounted to approximately $828.7 million, an increase of $52.3 million (6.7%) compared with the same period last year.

The increase in revenue stems mainly from the appreciation of the euro against the dollar, from a slight increase in the quantities sold of some of the products in Europe, from sales of wildfire retardant products in North America, and from the increase in the selling price of some of the products.

Operating income

Operating income in the segment in the reporting period amounted to approximately $73.7 million, an increase of approximately $4.8 million (7.0%) compared with the same period last year. The profit from sales was approximately 8.9% similar to the same period last year.

The improved operating income stems mainly from the improved profitability of the wildfire retardant unit as a result of the many fires occurring in North America. After the reporting period, ICL Performance Products signed an agreement to acquire Biogema, which has wildfire retardant operations in Europe. i.

4. Financial position and sources of financing of ICL

At September 30, 2007, ICL recorded an increase of $460.2 million in net financial liabilities compared with their balance at the end of 2006. At the end of September 2007, net financial liabilities amounted to $1,0119 million.

ICL's sources of financing are primarily short- and long- term loans from Israeli and international banks. ICL also issued debentures to institutional investors in the USA, has a customer debt securitization arrangement, and issues short-term commercial papers as an additional source of financing.

On August 6, 2007, ICL entered into an agreement with a group of 17 banks in Europe, the USA and Israel. Under the agreement, the banks granted ICL a loan of $725 million for a period of five years (bullet repayment on maturity) bearing interest of short-term Libor + 0.45%. The new loan replaces, inter alia, a similar borrowing facility of 2005 for $250 million at an interest rate of Libor + 0.6% for five years and which has been repaid ahead of its original maturity.

In July 2007, ICL increased its trade-receivables securitization facility (signed in 2004 with Rabobank), in which some of the Group's companies sell their trade receivables to a foreign company which was set up for this purpose, and which is neither owned nor controlled by the ICL Group (SPV). The additional amount is $80 million and the new total amount of the facility is $300 million. At September 30, 2 007, $172 million of the securitization facility had been utilized.

Cash flow

The cash flow of ICL from current operations in the period amounted to $377.1 million, compared with $261.3 million in the same period last year, an increase of $115.8 million. The cash flow for the period includes insurance payments received, which were recorded as income last year and were actually received in this period. Cash flow from current operations together with the increase in net financial liabilities of $460.2 million, were the principal source of finance for investments in fixed assets of $125.1 million for financing the cash consideration of of approximately $351.7 million paid in respect the acquisition of Supresta, and for payment of a dividend of approximately $436.3 million to the shareholders.

5. Investments

In the reporting period, investments in property, plant and equipment net of investment grants amounted to approximately $125.1 million, compared with investments in property, plant and equipment less grants amounting to $92.2 million in the same period last year.

6. Human Resources

The total number of employees at ICL at September 30, 2007 is 10,010, compared with 9,470 on September 30, 2006. The increase in the number of employees stems mainly from an increase in the ICL Industrial Products segment following the acquisition of Supresta, the growth in the ICL Performance Products segment following acquisition of Fire-Trol assets in Canada, and new operations in the East in water-treatment, chemicals for the paper industry and Rhenoflex. There was also an increase in the number of employees at Israel Desalination Engineering (IDE).

7. Market Risk Exposure and Management

Below is an update of the sensitivity to changes in the exchange rates for the nine months ended September 30, 2007:

Sensitivity to changes in exchange rates

	Profit (loss) from changes		Fair value	Profit (loss) from changes	
(USD/NIS)	In millions of dollars				
Instrument type	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Cash and cash equivalents	(0.3)	)0.2_	3.2	0.2	0.4
Marketable securities	0.0	0.0	0.0	0.0	0.0
Short-term deposits and loans	(0.3)	(0.2)	3.5	0.2	0.4
Receivables and debit balances	(10.8)	(5.7)	118.8	6.3	13.2
Inventories	0.0	0.0	0.0	0.0	0.0
Financial investments in associated companies	0.0	0.0	0.0	0.0	0.0
Long-term deposits and loans	(0.5)	(0.2)	5.1	0.3	0.6
Credit from banks and others	7.0	3.7	(76.8)	(4.0)	(8.5)
Suppliers and others	11.6	6.1	(127.1)	(6.7)	(14.1)
Payables and credit balances	15.4	8.1	(169.6)	(8.9)	(18.8)
Employee related obligations	11.5	6.0	(126.8)	(6.7)	)14.1)
Long-term bank loans	0.0	0.0	(0.0)	(0.0)	(0.0)
Debentures	0.0	0.0	0.0	0.0	0.0
Options	(13.5)	(7.3)	8.6	8.8	18.7
Forward	(6.5)	(3.4)	0.4	3.8	8.0
Total	20	10	(361)	(11)	(22)

	Profit (loss) from changes		Fair value	Profit (loss) from changes	
(EUR/USD)	**In millions of dollars**				
Instrument type	**Rise of 10%**	**Rise of 5%**		**Fall of 5%**	**Fall of 10%**
Cash and cash equivalents	(1.9)	(1.0)	21.2	1.1	2.4
Marketable securities	0.0	0.0	0.0	0.0	0.0
Short-term deposits and loans	(9.7)	(5.1)	106.3	5.6	11.8
Receivables and debit balances	(31.2)	(16.3)	343.0	18.1	38.1
Inventories	(15.7)	(8.2)	172.4	9.1	19.2
Financial investments in associated companies	(9.0)	(4.7)	98.9	5.2	11.0
Long-term deposits and loans	(0.4)	(0.2)	4.7	0.2	0.5
Credit from banks and others	9.1	4.8	(100.4)	(5.3)	(11.2)
Suppliers and others	13.8	7.2	(151.8)	(8.0)	(16.9)
Payables and credit balances	13.7	7.2	(150.3)	(7.9)	(16.7)
Employee related obligations	10.2	5.3	(112.0)	(5.9)	(12.4)
Long-term bank loans	0.1	0.1	(1.6)	(0.1)	(0.2)
Forward	(11.0)	(7.6)	(3.9)	4.1	8.7
Options	(2.4)	(1.7)	(3.4)	3.2	5.8
Total	(34.3)	(20.3)	223.0	19.4	40.1

	Profit (loss) from changes		Fair value	Profit (loss) from changes	
(GBP/USD)	**In millions of dollars**				
Instrument type	**Rise of 10%**	**Rise of 5%**		**Fall of 5%**	**Fall of 10%**
Cash and cash equivalents	(0.1)	(0.0)	0.6	0.0	0.1
Marketable securities	0.0	0.0	0.0	0.0	0.0
Short-term deposits and loans	(0.1)	(0.1)	1.1	0.1	0.1
Receivables and debit balances	(0.3)	(0.2)	3.2	0.2	0.4
Inventories	(1.9)	(1.0)	20.8	1.1	2.3
Financial investments in associated companies	0.0	0.0	0.0	0.0	0.0
Credit from banks and others	2.2	1.1	(23.9)	(1.3)	(2.7)
Suppliers and others	1.3	0.7	(14.7)	(0.8)	(1.6)
Payables and credit balances	2.1	1.1	(23.5)	(1.2)	(2.6)
Employee related obligations	(0.3)	(0.2)	3.7	0.2	0.4
Total	3.0	1.6	(32.6)	(1.7)	(3.6)

Sensitivity to changes in Libor

	Profit (loss) from changes		Fair value	Profit (loss) from changes	
	In millions of dollars				
Instrument type	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Loans at fixed interest	3.6	1.8	(220.2)	(1.8)	(3.6)
Loans at variable interest			(1030.8)		
Collar transactions	0.0	(0.0)	1.209	0.3	0.2
Cap options	0.0	0.0	0.876	(0.0)	(0.0)
Swap transactions	(2.0)	(0.9)	(1.8)	1.1	2.1
Total	1.7	0.9	(1250.7)	(0.4)	(1.3)

	Profit (loss) from changes		Fair value	Profit (loss) from changes	
(JPY/USD)	In millions of dollars				
Instrument type	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Cash and cash equivalents	(0.3)	(0.2)	3.3	0.2	0.4
Marketable 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
Receivables and debit balances	(1.7)	(0.9)	18.2	1.0	2.0
Inventories	(1.1)	(0.6)	12.4	0.7	1.4
Financial investments in associated companies	0.0	0.0	0.0	0.0	0.0
Credit from banks and others	0.0	0.0	0.1	0.0	0.0
Suppliers and others	0.1	0.1	(1.4)	(0.1)	(0.2)
Payables and credit balances	0.2	0.1	(2.3)	(0.1)	(0.3)
Employee related obligations	0.0	0.0	(0.1)	(0.0)	(0.0)
Long-term bank loans	0.1	0.1	(1.4)	(0.1)	(0.2)
Forward	1.1	0.6	0.0	(0.6)	(1.3)
Options	0.6	0.2	(0.1)	(0.2)	(0.4)
Total	(1.0)	(0.6)	28.8	0.7	1.5

(Real Brazil/USD)	Profit (loss) from changes		Fair value	Profit (loss) from changes	
	In millions of dollars				
Instrument type	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Cash and cash equivalents	(0.3)	(0.2)	3.7	0.2	0.4
Marketable 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
Receivables and debit balances	(0.6)	(0.3)	6.3	0.3	0.7
Inventories	(0.6)	(0.3)	7.0	0.4	0.8
Financial investments in associated companies	(1.0)	(0.5)	10.5	0.6	1.2
Credit from banks and others	0.0	0.0	0.0	0.0	0.0
Suppliers and others	0.2	0.1	(2.5)	(0.1)	(0.3)
Payables and credit balances	0.2	0.1	(2.7)	(0.1)	(0.3)
Total	(2.0)	(1.1)	22.3	1.2	2.5

Chinese RMB/USD)	Profit (loss) from changes		Fair value	Profit (loss) from changes	
	In millions of dollars				
Instrument type	**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
Marketable securities	0.0	0.0	0.0	0.0	0.0
Short-term deposits and loans	(0.7)	(0.4)	7.9	0.4	0.9
Receivables and debit balances	0.3	0.2	(3.7)	(0.2)	(0.4)
Inventories	(1.7)	(0.9)	18.9	1.0	2.1
Financial investments in associated companies	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	(0.4)	(0.2)	4.8	0.3	0.5
Payables and credit balances	0.0	0.0	0.0	0.0	0.0
Total	(2.7)	(1.4)	29.4	1.5	3.3

Update of the derivative position for the first three quarters of 2007:

Hedging transactions against changes in the exchange rates on cash flows

In thousands of dollars	Nominal value up to one year		Fair value up to one year	
	Long	Short	Long	Short
Direction of transaction in derivatives is dollar purchase				
Currency: Euro/USD				
Forward				
Recognized for accounting purposes	67,678		-2,269	
Recognized for accounting purposes for more than one year	12,000		-1,640	
Call options				
Recognized for accounting purposes	76,185		-3,674	
Put options				
Recognized for accounting purposes	74,256		242	
Currency: JPY/USD				
Forward				
Recognized for accounting purposes	11,737		25	
Call options				
Recognized for accounting purposes	15,000		57	
Put options				
Recognized for accounting purposes	15,000		130	

In thousands of dollars	Nominal value up to one year		Fair value up to one year	
	Long	Short	Long	Short
Currency: NIS/USD				
Call options				
Recognized for accounting purposes		191,250		247
Put options				
Recognized for accounting purposes		166,250		8,798
Forward				
Recognized for accounting purposes		72,144		392
Currency: NIS/euro				
Call options				
Recognized for accounting purposes		15,412		-177
Put options				
Recognized for accounting purposes		8,277		144
Forward				
Recognized for accounting purposes		1,498		-13

Interest-hedging transactions - for hedging changes in variable interest rate (Libor) on dollar loans

$000	Nominal value				Fair value			
	Up to one year		Over one year		Up to one year		Over one year	
	Long	Short	Long	Short	Long	Short	Long	Short
Swap				125,000				-1,818
Caps	50,000		400,000		216		1,870	
Floors			300,000					

8. Accounting issues

8.1 Adoption of International Financial Reporting Standards (IFRSs)

In July 2006 the Israel Accounting Standards Board published Accounting Standard No. 29 – Adoption of International Financial Reporting Standards (IFRSs) (hereinafter – Standard 29). Standard 29 stipulates that companies that are subject to the provisions of the Israeli Securities Law, 5728-1968 and report according to it, will prepare their financial statements under IFRSs as of reporting periods commencing January 1, 2008 (financial statements for the first quarter of 2008). In its Directors' Report for the six-month period ended June 30, 2007, the Company included an estimate of the material financial effects of transition to reporting according to IFRSs on the financial position of the Group as at January 1, 2007 (the transition date), and on the results of operations for the six-month period ended June 30, 2007.

In October 2007, the Securities Authority published Decision 3-17 concerning change in the estimated useful lives of property, plant and equipment ("the Authority's Decision"). The Authority's Decision applied to financial statements prepared in accordance with IFRSs. According to the Authority's Decision, a change can be made in the estimated use life of an asset based on the corporation's accumulated experience with regard to that asset, where the corporation has accumulated solid and reliable evidence in support of making a change in the estimate.

Based on an internal opinion received, the Company will change the estimate of the balance of useful lives of property, plant and equipment to reflect the duration of the amortization period in the financial statements prepared according to IFRSs, commencing January 1, 2007.

The effect of changing the estimated useful lives of the facilities and machinery on the financial position of the Company at January 1 2007 and for the six-month period ended June 30, 2007 as reflected in the Directors' Report at June 30, 2007, is not expected to be material.

8.2 Disclosure of the approval proceeding for the financial statements of the Company

ICL's Board of Directors bears overall responsibility for the Company.

The Board of Directors has appointed a finance committee which discusses the financial statements and recommends their approval to the Board. The finance committee has six members, one of whom is an external director, and all the members have accounting and financial expertise. All the members of the Board of Directors are invited to meetings of the finance committee to discuss the financial statements, as are as the external auditors.

The finance committee, aided by a detailed presentation of the Company CEO, Akiva Moses, and the CFO, CPA Avi Deutschman, examines the financial statements and the material issues in financial reporting, including transactions outside the normal course of business – if any, the material assessments and critical estimates applied in the financial statements, the reasonableness of the data, the accounting policies applied and changes that occurred in them, including a review of the new accounting standards, and application of the principle of proper disclosure in the financial statements and in the accompanying information. The finance committee also examines various aspects of risk control and management, both the risks reflected in the financial statements (such as the reporting on financial risks) and those that influence the reliability of the financial statements. Where necessary, the finance committee requests comprehensive reviews of matters which have material implications. The external auditor relates to the issues raised in the committee's discussions and if necessary, presents the main findings of the review process.

The process for approval of the financial statements at ICL involves discussions on the segments' results by their boards of directors. The members of those boards include directors from the Board of Directors of ICL, as well as ICL officers. The external auditor of the segments attends these discussions. The Board of Directors of ICL discusses the financial statements after approval of the financial statements of the segments.

Approval of the financials statements in the Company involves a number of meetings, as needed: initially, a few days prior to approval of the financial statements, a comprehensive discussion of the material reporting issues takes place in the finance committee, after which, immediately prior to approval of the financial statements by the Board of Directors, the Board discusses the results themselves. The external auditors and the internal auditor are invited to these meetings. The external auditor of the Company relates to questions that arise, and if necessary presents the main findings of the review. Once the Board of Directors is satisfied that the financial statements properly reflect the position of ICL and the results of its operations, the Board of Directors approves the financial statements.

9. Update on the description of the Company's business

An update of specific issues in the Description of the Company's Business in the 2006 Periodic Report is presented below.

9.1 **Percolation at a dike at the Dead Sea** (Section 4.1.1 of the periodic report): Salt percolation of one of the dikes of the evaporation ponds of ICL Fertilizers at the Dead Sea has affected the sealed layer of the dike. This created spaces in the body of the dike, and fissures have been found along its length. In certain circumstances, these spaces and/or fissures could jeopardize the integrity of the dike. ICL Fertilizers, relying on consultations with international experts, has taken and is taking various steps to preserve and strengthen the stability of the dike, and monitors it closely in order to identify any developments that could lead to the failure of the dike.

The phenomenon of sinkholes is generated mainly by a lowering of the level of the Dead Sea and is increasing in the Dead Sea area. Most of the sinkholes develop near the northern section of the Dead Sea, where ICL Fertilizers' operations are not significant. Sinkholes have also appeared in the area of the evaporation ponds and in other places in the Dead Sea Works area. Development of a sinkhole under a dike could cause the dike to burst, causing loss of the solutions in the pond. ICL Fertilizers is acting to identify the development of sinkholes in the area of the plant, and to fill them in whenever they appear.

9.2 **Rise in the level of Pond 150** (Section 4.1.15(g) of the Periodic Report): On May 13, 2007, the Government decided, that the Ministry of Tourism will coordinate the planning and implementation of interim protections at the Dead Sea, as part of the ongoing activities of the intermediate stage (A/2), which relates to actions for preservation and maintenance of the shore and the hotel area near the Dead Sea, and completion of the feasibility studies of the alternatives for long-term protective measures. For this purpose, and in order to create a budget framework, the government announced that it would transfer NIS 200 million to the Ministry of Tourism. It was also decided to appoint a steering committee for the project, to appoint the Government Tourism Company as project manager and to ensure that those involved in the project, will obtain support from entities operating in the area. The government also decided that the project to protect the Dead Sea will be defined as an infrastructure project of national importance under the Planning and Construction Law, 5725-1965, and that the Ministry of Tourism will prepare a plan for a national infrastructure and submit it to the National Infrastructures Committee, for advancing the planning process. To finance these intermediate measures, the government announced a budget allocation of NIS 100 million.

It was also decided that the Minister of Finance will define by regulations the financing arrangements between the various partners for completion of the Dead Sea protective measures, including the way of budgeting it. In the context of a petition submitted by the Israeli Hotel Association (to the High Court of Justice) and the responses of the Government,[1] the Tamar Regional Council and the Company, the Government claimed that the time is not yet ripe for addressing the issue of financing (of additional temporary protective measures and of a permanent solution). All the other parties, including the Company, stated that the Government is responsible for financing these protective measures. However, in August 2007, the Government submitted a declaration to the Supreme Court claiming that the Government is not responsible, or at least does not bear the main responsibility for the problem or its solution, and that the issue is rather a "conflict between neighbours", namely between Dead Sea Works and the hotels; nevertheless the Government would continue to try to advance the process. On August 13, 2007, the Supreme Court published its decision, according to which it does not accept the position of the Government, that it acts in this matter on a voluntary basis. The Court stated that Dead Sea Works, the regional council and the hotels all have to act to find a solution to the problem. On the operational level, the Court ordered the Government to submit, within 60 days, an updated time-table, with reference also to the organizational structure, including the establishment of a council whose members would engage only in this matter. In October 2007, the

[1] The government submitted the response to the Supreme Court before the above--quoted government decision of December24, 2006

Government submitted an update to the court on progress and the steps taken, including approval to proceed with the planning stage as part of the National Infrastructures Committee measures. Inter alia, the hotel protection project was declared a national infrastructure project, and the process for its approval will be expedited in the National Infrastructures Plan. In addition, the Government Tourism Company and Dead Sea Works entered into a framework agreement whereby Dead Sea Works will serve as contractor for various works for the interim protection and feasibility study. To date, one work order has been signed. The case is pending in court.

On August 12, 2007, the Government of Israel decided, as part of the annual economic plan (Arrangements Law) that the Minister of Finance shall enter into negotiations with the Tamar Regional Council, Ein Bokek-Hamei Zohar hotels and with Dead Sea Works, to determine how to split between the parties the financial burden of handling damages caused by the rising water level in the Dead Sea area, and of performing the required studies to examine options for a permanent solution (the "Costs"). It was also decided to amend the Economic Arrangements Law of 2002 and to define how to divide financing of the Costs between the parties to the negotiations. Should the parties fail to reach an agreement by September 10, 2007 in respect of the share of each party in financing the Costs, the Minister of Finance will submit a proposal to the Government, how to divide the Costs, which would become part of the Arrangements Law. A notice filed by the Government in the Supreme Court stated that it was in contact with the entities involved and had decided not to move forward with legislation as long as the negotiations were in progress.

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

In respect of the permanent solution – there are a number of alternative solutions. Each solution, compared to its alternatives, has advantages and disadvantages and each solution bears a different cost of implementation. At the date of this report, no operational feasibility study has been made in the area of the ponds, which could provide the necessary input for the selection of the preferred solution and an estimate of its cost. Hence, it is impossible, at this time, to assume which permanent solution will be selected and what will be the cost associated with its implementation. There is also no agreement as to which parties will participate in the financing of the project and how the cost will be split between the parties. Furthermore, Dead Sea Works is of the opinion that it is not obliged to participate in the financing of the project. Accordingly, the Company is unable to provide an estimate of the cost it might bear in the future, if at all, for the permanent solution.

9.3 **Price control:** (Section 4.1.15 (d) (1) of the Periodic Report): The price of phosphoric acid used in agriculture (green acid) on the local market in Israel is controlled by the Control of Prices of Commodities and Services Law (5756-1996). The magnitude of green acid sales by ICL Fertilizers in Israel is not significant for ICL.

9.4 **Legal proceedings in connection with the Kishon stre**am (Section 4.1.16(a) E(2) of the Periodic Report): The Haifa Rowing Club Association filed a class action in the Haifa Magistrate's Court under the Prevention of Environmental Hazards Law (Civil Claims), 5752-1992]. against a number of factories along the banks of the Kishon stream, including against Fertilizers & Chemicals Ltd. (FCL), a subsidiary of the ICL Fertilizers segment. The Government, Municipalities and dozens of factories were included as third parties in the claim. The claim was suing for termination of the flow of effluents into the Kishon, and an order to rehabilitate the stream and restore it to its original condition. On March 29, 2007 the court dismissed the claim outright and allowed the authorities to exercise their discretion in connection with the rehabilitation of the Kishon, noting the practical steps taken by the authorities and the defendants to improve the condition of the Kishon and the considerable improvement in recent years in the quality and condition of the stream's water. In its ruling, the court also mentioned FCL's compliance with the flow permits granted to it, and the constant monitoring of effluents, which have revealed no deviations. On May 21, 2007, the Association appealed the ruling to the District Court of Haifa. This type of class action is virtually without precedent in Israel, in the absence of a Supreme Court ruling of the interpretations or application of the law on which the claim is based, and therefore it is clearly difficult to assess the chances of the petition, considering that the stages of hearing and submission of evidence have not yet been exhausted. In the opinion of the Company, based on the assessment of its legal advisors, the likelihood of the appeal, and subsequently the claim, will being allowed, is not high.

In April, June and July 2004, three lawsuits were filed against four defendants in Haifa District Court by former soldiers (as well as heirs and dependants). The plaintiffs combined with an earlier claim by a former soldier and his wife, in claiming that as a result of contact with toxic substances in the Kishon River and its environs, they suffered cancer and/or other diseases. At the date of this report, 19 of the plaintiffs had revoked their claims and they were dismissed.[2] At the report date, 76 plaintiffs remain in claims for 74 soldiers, amounting (in nominal amounts at the date of filing the claim) to approximately NIS 222.3 million (approximately $55 million) – the special/general damages are assessed in shekels at NIS 76.7 million, the dependants' claim in dollars at approximately $19 million and partially subordinated to the special damages), and approximately 112.5 million ($28 million) in punitive damages (all these amounts being correct at the date of filing the claims). Other principal damages mot assessed in money terms in the statements of claim (including loss of future earnings, medical expenses, in some of the cases loss of earnings in the future years, etc.; since these are claims for bodily injury, the plaintiffs are not required to quantify precisely the full amount claimed), and interest and linkage differentials, attorneys' fees and costs. The defendants issued third party notices, including to F&C, as well as to dozens of plants and authorities and including the State of Israel.

In August 2007, an additional claim was filed in the Tel Aviv District Court against the defendants mentioned above (and against insurance companies), by 17 plaintiffs alleging exposure to the waters of the Kishon stream and its environs during their military service (including their heirs and dependents). At the date of this report, no statements of defense of third party notices have been filed, and F&C is not a party to these proceedings. A mediation proceeding undertaken in all the claims was unsuccessful.

These cases are in the initial hearing stages. Consequently, the factual information regarding the plaintiffs and the nature of their alleged exposure is mostly not known to the defendants and third-party defendants, including F&C. These actions involve highly complex fact patterns spanning decades and involving hundreds of parties (plaintiffs, defendants and third parties), and constitute a precedent-setting proceeding, both in terms of the nature of the claim and the division of responsibility among the defendants and third parties. It is likely, with the necessary caution and subject to the abovementioned information, that some of F&C's defence arguments against the claims described in sub-section 4.1.16(a)(3)in the Directors' Report of ICL for 2006, will also serve with regard to these claims. Nevertheless, based on the evaluation of its legal advisors, and in light of the factual and legal complexity of the cases, the initial stage at which they are pending, and the multitude of parties involved, the Company cannot estimate its exposure with regard to these claims and no provision has been included in the financial statements.

9.5 **Principal projects being carried out by the corporation** (Section 4.1.17(b), 4.2.18 and 4.3.17 of the Periodic Report): ICL Fertilizers currently operates a power station for generating electricity in Sedom, and also purchases electricity from Israel Electric Corporation. In October 2007, Dead Sea Works (DSW), which is part of the ICL Fertilizers segment, received a license to generate electricity using power and heat installations (co-generation) in a total capacity of 400 megawatts, replacing the license issued in 2006. The license is conditional upon DSW meeting a series of milestones. There is still no decision regarding the erection of the power station. At this stage, ICL Fertilizers is examining the possibility of and making preliminary plans for erecting a power station, starting with construction of a plant with a production capacity of 200 megawatts, which will supply electricity to the ICL Group in Israel, with the option of expanding the plant at a later stage to 400 megawatts.

In 2006, a subsidiary of IDE Desalination Engineering Ltd. (IDE) won a tender published by the Government of Israel for the design, financing, erection and operation by the BOT method, of a desalination facility in the Hadera area, with a capacity of100 million cu.m. per year. In November 2007, IDE announced that its subsidiary had successfully arranged financing for the erection of the project. IDE holds 50% of the subsidiary, and ICL has a 50% stake in IDE.

9.6 **Directives in respect of environment quality** (Section 4.2.14(b) of the Periodic Report): In March and June 2007, three claims were filed in the Be'er Sheva District Court against the State of Israel and Ramat Hovav Local Industrial Council. Two of the claims were filed by 73 residents of the Bedouin dispersion in the northern Negev region. The third claim was filed by nine residents from the Be'er Sheva area. ICL is not a defendant in these proceedings. Ramat Hovav Industrial Council is a local industrial council within whose jurisdiction all the Ramat Hovav plants operate, among them the Bromine Compounds plant of the ICL Industrial Products segment. The plaintiffs allege that various pollutions in the Ramat Hovav area have caused the diseases from which they suffer, including, *inter alia*, respiratory diseases, abortions, congenital malformations, cancer and others. The claims sue for amounts in respect of expenses incurred by the plaintiffs' for treatments, compensation for suffering and mental anguish, and punitive damages. The plaintiffs estimate the total amount claimed to be in

[2] The dismissed claims were for payment of NIS 46.5 million in special and global damages, NIS 7.5 million in compensation for dependants, and NIS 28.5 million in punitive damages.

excess of NIS 238 million (approximately $55 million). The State of Israel applied to the court to add a number of plants, among them also entities belonging to the ICL Industrial Products segment, as additional defendants in the claim. The court dismissed the application and determined that if the State wishes additional parties to be joined to the claim, there is no obstacle to it serving third party notices on them. The cases are in their preliminary stages, and the level of risk in them cannot yet be assessed.

9.7 **Subordination of operations to certain laws – the secondary concession** (Section 4.2.16A (1) of the Periodic Report): In recent years, there have been audits on behalf of the Ministry of Industry, Trade and Employment, relating to payment of royalties. The Company did not receive a copy of the audit findings. The Accountant General at the Ministry of Finance, allegedly based on these audits, claims that DSW paid insufficient royalties, amounting to "hundreds millions of shekels". The Accountant General requires the implementation of the arbitration clause in the concession agreement in respect of these insufficient payments.

Payment of royalties is specified in the concession, which DSW received from the Government and in the secondary concession given by DSW to the Bromine Company, with Government approval. In the opinion of DSW, based also upon its legal counsel, royalties were paid in accordance with the concessions and calculated based on the same method applied consistently for decades, ever since it was a government company. This method was known to the Government, and the Government did not claim (before these letters were received by the Accountant General) improper calculation or payment of royalties. It should be noted that payment of the royalties was examined a number of times by government authorities, including the State Comptroller, and the appropriateness of the amounts was also confirmed by external accountants. Therefore, in the opinion of DSW and based also on the opinions of its legal advisers, these allegations have no foundation, and no provision was made in the financial statements.

DSW is attempting to settle the dispute in an agreement with the Government. Should the parties fail to reach an agreement; the dispute will be submitted for arbitration, under the concession agreement.

9.8 **Benefits and the essence of employment agreements** (Section 5.2 (e) of the Periodic Report): A collective labor agreement of DSW of the ICL Fertilizers segment was in force until September 2006. In the reporting period, a new collective labor agreement was signed, valid until the end of September 2010. At Rotem Amfert Negev, a collective agreement was signed in November 2007, valid until August 2011. Dead Sea Bromine of the ICL Industrial Products segment has a collective agreement valid until the end of December 2007. Dead Sea Magnesium has a collective agreement valid until the end of June 2007. At the reporting date, a request was received from the Dead Sea Magnesium workers council to negotiate the agreement. As long as no new agreement is signed, the parties continue to act under the expiring contract. Regarding the negotiations for renewal of the labor agreements, there are sanctions in the companies from time to time.

9.9 **Sale of trade receivables as part of a securitization transaction** (clause 5.43 of the Periodic Report). In July 2007 the facility of securitization of trade receivables was increased to $300 million

9.10 **Limitation of use of brominated flame-retardants** (Section 4.16.2(a)2 of the Periodic Report)**:** In various States in the US discussions are currently being held by the Houses of Representatives (Senate and Congress) on drafts of legislations in respect of the use of flame retardants. A bill that was before the Senate of California to prohibit the use of brominated and chlorinated flame retardants for furniture, mattresses and bed-ware, was defeated, but could be presented again the the future.

10. Events during and after the period

10.1 On January 28, 2007, the Company's Board of Directors approved a plan for a private issuance, for no consideration, of 12.9 million options exercisable for the Company's shares, to a group of office holders and other senior managers in ICL and its subsidiaries, in and outside of Israel. See Section 5.2E in the section "Description of the Corporation's Business" in the 2006 annual report. On January 28, 2007, 5.4 million options were allocated, from this plan, of which 2.2 million options were granted to the Company's CEO. On March 27, 2007 6.4 million stock options from this plan were allocated. The remainder of the stock options that were not allocated expired on March 28, 2007.

10.2 On March 27, 2007, the Company's Board of Directors resolved to distribute the net earnings of the Company for 2006 as a dividend, after taking into account a dividend of $90 million which was distributed on September 19, 2006, for part of the year's earnings. Accordingly, on April 25, 2007, a dividend of $283.9 million was distributed ($283.4 million net, after deduction of the part of a subsidiary).

On May 28, 2007, the Board of Directors of the Company resolved to distribute a dividend of $66.8 million ($66.7 million net, after deduction of the part of a subsidiary), 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 (approx. $87.9 net, after deduction of the part of a subsidiary), which was distributed on September 18, 2007.

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

10.3 The Chairman of the Board, Mr. Yossi Rosen, informed the Board of Directors that he intends to resign from his position as chairman as of December 31, 2007 and that the Israel Corp intends to nominate Mr. Nir Gilad as his replacement. On May 28, 2007 the Board of Directors resolved to nominate Mr. Nir Gilad as acting Chairman of the Board.

10.4 On August 6, 2007, ICL entered into an agreement with a group of 17 banks in Europe, the USA and Israel. Under the agreement, the banks have granted ICL a loan of $725 million for a period of five years (bullet repayment on maturity) bearing interest of short-term Libor + 0.45%. The new loan replaced, inter alia, a similar borrowing facility of 2005 for $250 million at an interest rate of Libor + 0.6% for five years and which was repaid ahead of its original maturity.

10.5 In accordance with the Board decision and the recommendation of the auditing committee, the term of the internal auditor, CPA Shlomo Ben Shimol of Deloitte, who has served as internal auditor since May 2005, was extended by a period of three years, ending at the end of May 2010.

10.6 In July 2007 ICL Fertilizers signed an agreement with an Indian partner to establish an equally-owned joint venture for production and distribution of specialty fertilizers in India, based on ICL Fertilizer's technology.

10.7 On August 13, 2007 a transaction was completed between ICL and Supresta Holdings LLC (the Vendor) a holding company of Ripplewood Holdings LLC, for purchase of the equity interests in Supresta Holdings (Supresta), a company registered in Delaware USA, which engages in the manufacture and marketing of fire retardants and other phosphorus - based products.

ICL paid approximately $351.7 million, subject to adjustments, mainly in respect of working capital according to a mechanism defined in the purchase agreement.

Supresta is the world leader in the manufacture and marketing of phosphorus-based fire retardants. Supresta was established in 2004 when the Vendor acquired the operations from Akzo Nobel and employs more than 300 workers. Supresta owns two factories in the US and in Germany. Supresta has more than 80 phosphorus-based products, which, are used as fire retardants for polyurethanes and engineering resins, plasticizers for the plastics industry as well as functional fluids for power stations and other uses.

10.8 In September 2007, ICL Performance Products USA was summonsed to appear before a grand jury which is investigating suspected violation of antitrust laws in connection with the sale of STPP (a phosphoric acid-based salt), in the period from 2002 to 2005. ICL did not produce STPP in the USA before acquiring the operations and assets of Astaris in November 2005, and is therefore of the opinion that the investigation is unrelated to its activities. According to a report published by another company, the investigation is being conducted against a number of American companies in the field. ICL Performance products will comply with the summons.

10.9 In October 2007, a claim was filed in the court in Missouri, USA, by a pharmaceutical company. The claim alleges that the pharmaceutical company purchased raw material from a third party which was apparently sold, in part, by Astaris (whose operations and assets were acquired by ICL Performance Products in November 2005), and in part by ICL Performance Products USA, which, allegedly, was contaminated with copper fibers. According to the statement of claim, ICL Performance Products USA did not disclose the contamination at the time to the plaintiff, and refrained from cooperating with it in investigating the matter. The pharmaceutical company was compelled, so it alleges, to issue a recall of the product it manufactured from the material, and is suing for damages and compensation in excess of US $15 million. Under the purchase agreement for the assets of Astaris, liability for defective products manufactured before the closing of the acquisition applies to the sellers. At this preliminary stage of the proceeding, ICL Performance Products is unable to assess whether it has any real exposure in respect of this claim.

10.10 In November 2007, a claim and application for its certification as a class action were filed in the Be'er Sheva District Court, against Bromine Compounds Ltd., a company from the ICL Industrial products segment. The plaintiffs allege that hazardous substances are emitted from the defendant plant. According to the plaintiffs, the defendant is required to pay Negev residents "monetary compensation for the harm to free will and for putting their health at risk", and to establish a "Medical Monitoring Fund". (The statement of claim has not yet been submitted to the Company.) The amount claimed in the class action lawsuit is NIS 1,086 million. At this preliminary stage, ICL is unable to assess the likelihood of the claim's success, if any, and of the application for certification as a class action.

10.11 In November 2007, IDE Technologies Ltd., a company held by ICL and the Delek Group in equal parts, announced its plans for an issuance outside Israel and for registration of GDSs in the Official List on the London Stock Exchange. IDE stated that it intends to issue 25% of its shares and to complete the offering proceeding during December 2007.

The Board of Directors of ICL wishes to thank ICL's management, as well as the employees and managers of ICL companies, for their dedicated and skilled contribution to the development of ICL and the achievement of its business results.

Date: November 19, 2007

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Yossi Rosen **Chairman of the Board**	**Akiva Mozes** **CEO**