

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

Following is the Directors' Report of Israel Chemicals Ltd. ("ICL" or "the Company") for the period ended March 31, 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 based as well 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.

ICL has a key position in the potash, bromine and purified phosphoric acid and specialty phosphate markets. Potash is a core component of fertilizers. The 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 and aluminum and other industries. The ICL Group 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 the Dead Sea.

ICL's main production facilities are located in Israel, Germany, the United States, Holland, Spain, England, China, Brazil and France. Other production facilities are 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 byproduct streams from the evaporation ponds used to manufacture potash, etc.)

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 48% 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:

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- 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 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. 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 Sdom, 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 U.S.A. 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 fire 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, other 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 **The business environment and profitability of ICL**

ICL is a multinational group. Its business results are influenced by global economic trends, by changes in trading and financing conditions and by 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 U.S. dollars and the euro. A portion of its operating expenses are in NIS. Therefore, a devaluation of the currency exchange rate of the NIS relative to 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 in the period compared with the

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same period last year, by approximately \$18 million, of which about \$4 million is an expense without accompanying cash flow. ICL has more revenues than expenses in euro. Therefore, appreciation of the exchange rate of the euro relative to the dollar has a positive impact on ICL's profitability, and devaluation has a negative impact. ICL hedges against some of these exposures. However, the competitiveness of ICL's subsidiaries whose operating currency is the Euro was harmed compared with companies whose operating currency is the dollar.

Most of the Group's debt bears variable interest. Therefore, the Group 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 (cereals, rice, soybean, maize, etc.), resulting from natural population growth and a change in the composition of food consumption (increased consumption of meat) as standards of living rise in developed countries. In addition, the sharp rise in energy prices and the environmental problems caused by the use of fuel have resulted in an increasing tendency around the world to switch to types of fuel made from agricultural products. These trends have led to a considerable rise in the prices of agricultural produce, and to an increase in the areas of grains planted all over the world. As a result, the demand for fertilizers increased and as a consequence, there has been a sharp rise in the prices of most types of fertilizers.

According to information published on May 24, 2007 in some professional journals of the fertilizer industry<sup>1</sup>, there have been reports of price increases in potash as the result of an increase in demand. These articles includes mention of: India – two private customers concluded purchases of 250,000 tons of potash till March 2008 from one of the potash producers at a price increase of \$50 per ton; Brazil – The potash producers announced a price increase of \$25 per ton, as of August 1, 2007. This price increase together with previous price increases means total price increase of \$100 per ton as compared with the prices at the end of 2006. In Southeast Asia, the producers announced a price increase of \$40 per ton as of the beginning of August 2007. According to the articles in these journals, agreements for the sale of potash in Europe for the next few months are being concluded at a price increase of over 20 Euro per ton.

The bromine market is greatly influenced by the level of activity in the electronics and oil-drilling markets, and by the restrictions on the use of methyl bromide following implementation of the Montreal Protocol. The first half of 2006 was characterized by strong demand for flame retardants which paralleled the rise in demand for electronic products. Commencing in the third quarter of 2006, the demand for flame retardants weakened, while concurrently, due to the relatively high prices of bromine and bromine compounds, we have seen an increase in Chinese production of some flame retardants. The trends on the first quarter of 2007 are similar to those which prevailed in the fourth quarter of 2006.

The activity of ICL Performance Products is affected by competition in some of its target markets and by the rate of exchange. Appreciation in the average rate of exchange of the euro relative to the US dollar compared with the corresponding quarter of last year, harmed competitiveness in some of its production activity in Europe.

Marine transportation expenses are a significant component in the expenses of ICL Fertilizers. In 2006, the trend of sharp fluctuations in bulk marine transportation prices continued – in the first half of 2006, marine transportation prices dropped sharply, while in the second half of the year, prices rose, a trend which continued in the first months of 2007.

Despite the increase in the selling prices of most types of fertilizers as noted above, the improvement in revenue at the factory gate was more moderate, due to the increase in transportation prices.

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

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<sup>1</sup> Reports in *Ferticon* and *Fertilizer Week*, professional journals of the fertilizer industry, May 24, 2007.

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 regulate the operating framework in a way that solves these problems.

ICL Industrial Products exports most of its products in containers or isotanks (dedicated containers used for transporting acids), through Israel's ports. The products of Dead Sea Magnesium and specialty fertilizers of ICL Fertilizers are also shipped in containers, on container ships that regularly dock in Israel's ports and take responsibility for loading containers at the general piers of the ports. Due to disputes between port workers and management, there have been disruptions recently in the loading of containers, which have been damaging to various companies, including ICL.

- 1.3 This Directors' Report is attached to the interim financial statements for the period ended March 31, 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 Period 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 corresponding period last year, in millions of dollars.

	1-3/2007		1-3/2006		2006	
	\$ millions	% of sales	\$ millions	% of sales	\$ millions	% of sales
Sales	883.0	100.0	717.0	100.0	3,258.2	100.0
Gross profit	304.8	34.5	265.7	37.1	1,153.2	35.4
Operating income	138.0	15.6	136.0	19.0	536.4	16.5
Pre-tax income	123.2	14.0	131.2	18.3	494.9	15.2
Net income	95.4	10.8	96.6	13.5	373.9	11.5
Cash flow from current operations	83.1		44.7		347.4	
EBITDA*	182.7	20.7	180.8	25.2	730.4	22.4
Investments in property, plant and equipment, less grants	47.3		29.4		131.7	

\* Calculated as follows in millions of dollars:

	<u>31-3/2007</u>	<u>1-3/2006</u>	<u>2006</u>
Net earnings	95.4	96.6	373.9
Depreciation and amortization	43.3	41.0	169.2
Financing expenses, net	10.5	6.0	39.3
Income tax	30.3	37.2	136.7
Special or one-off expenses	<u>3.2</u>	<u>-</u>	<u>11.3</u>
Total	<u>182.7</u>	<u>180.8</u>	<u>730.4</u>

### 2.2 **Results of operations for the period January – March 2007**

#### **Sales**

Sales in the reporting period amounted to \$883.0 million, compared with \$717.0 million last year, an increase of approximately 23.2%. The increase reflects larger quantities sold of potash and phosphate fertilizers, which were offset by a decrease in quantities sold of

elementary bromine and some flame retardants. Towards the end of the quarter, the prices of potash and phosphate fertilizers started to rise.

Below is a breakdown of sales by geographical region:

Sales CIF	1-3/2007		1-3/2006	
	\$ millions	%	\$ millions	%
Israel	52.0	5.9	46.9	6.5
North America	179.4	20.3	176.2	24.6
South America	67.6	7.7	37.2	5.2
Europe	376.3	42.6	302.6	42.2
Asia	169.9	19.2	124.6	17.4
Rest of the world	37.8	4.3	29.5	4.1
Total	883.0	100.0	717.0	100.0

The breakdown of sales in the first quarter of 2007 shows an increase in sales in all destinations, in particular in South America, Asia and Europe. This increase stems mainly from the larger quantities of potash and phosphate fertilizers sold to those regions.

### **Gross Profit**

Gross profit amounted to \$304.8 million, an increase of 14.2% compared with last year. The gross profit margin out of sales turnover reached 34.5% compared with 37.1% last year. The gross profit in the corresponding quarter last year includes insurance payments of approximately \$17 million, mainly in partial compensation for loss of earnings due to flood damage in Sdom at the end of 2004.

The increase in gross profit compared with the same period in the prior year, stems mainly from the increased quantities of potash and phosphate fertilizers sold and from the decrease in energy costs compared to the corresponding quarter last year. On the other hand, the decrease in sales quantities of elemental bromine and some flame retardants, a rise in the prices of some inputs, and an increase in shekel expenses in dollar terms as a result of the strengthening of the shekel against the dollar moderated the improvement in the gross profit. The gross profit in the corresponding quarter last year included insurance payments as mentioned above.

### **Sales and marketing expenses**

Sales and marketing expenses amounted to \$123.0 million, an increase of about 31.7% compared with last year. The increase in these expenses derives from an increase in sales of potash and fertilizers in which the transportation component is high, and a decrease in sales of bromine and bromine compounds in which the transportation component is relatively low, and from a rise in the prices of bulk marine transportation. In addition, shekel expenses increased in dollar terms, as a result of appreciation of the shekel against the dollar.

### **General and administrative expenses**

These expenses totaled \$34.2 million, an increase of about 6.4% 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 one million dollars 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.

### **Research and development expenses**

R&D expenses (net of grants from the Chief Scientist) amounted to \$9.6 million, an increase of \$1.2 million compared with last year. The increase stems from increased R&D expenses

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in the Industrial Products and Performance Products segments and from an increase in shekel expenses in dollar terms as a result of appreciation of the shekel.

**Operating income**

Operating income increased by 1.5% compared with the first quarter of 2006, reaching \$138.0 million. The increase derives 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 strengthening of the shekel against the dollar, and from an increase in transportation expenses.

**Financing expenses**

Net financing expenses amounted to approximately \$10.5 million, compared with \$6.0 million last year, an increase of \$4.5 million.

The increase stems from excess income from exchange rate differences amounting to approximately \$4.5 million, recorded in the prior year. There was also rise in the interest rate compared with last year, versus a decrease in the average debt balance.

**Other expenses**

Other expenses, net, amounted to \$4.4 million. These expenses include mainly the updated pension reserves.

**Tax expenses**

Tax expenses amounted to \$30.3 million, compared with \$37.2 million last year. The tax rate on pre-tax profit was 24.6%, compared with 28.4% in the same period last year, and derived mainly from the decrease of 2% in the corporate income tax rate compared with last year.

**Net earnings**

Net earnings amounted to \$95.4 million, compared with \$96.6 million last year.

### 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	1-3/2007		1-3/2006		2006	
	\$ millions	% of total sales	\$ millions	% of total sales	\$ millions	% of total sales
ICL Fertilizers	451.8	48.4	287.9	37.2	1,479.6	42.6
ICL Industrial Products	196.9	21.1	219.8	28.4	837.8	24.1
ICL Performance Products	249.1	26.7	242.2	31.3	1,027.9	29.6
Others and setoffs	(14.8)	-	(32.9)	-	(87.1)	-
Total	883.0	-	717.0	-	3,258.2	-

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

Operating income By operating segment	1-3/2007		1-3/2007		2007	
	\$ millions	% of segment sales	\$ millions	% of segment sales	\$ millions	% of segment sales
ICL Fertilizers	75.8	16.0	54.5	18.9	266.9	18.0
ICL Industrial Products	45.4	23.0	62.2	28.3	208.9	24.9
ICL Performance Products	18.8	7.5	24.7	10.2	85.9	8.4
Others and setoffs	(2.0)	-	(5.4)	-	(25.3)	-
Operating income (consolidated)	138.0		136.0		536.4	

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 operations in the segment in the first quarter of 2007 amounted to approximately \$451.8 million, an increase of about 56.9% compared with last year. The increase in sales turnover derives from a sharp increase in sales of potash compared with last year, when sales of potash decreased due to protracted negotiations with Chinese and Indian customers. In addition, larger quantities of phosphate fertilizers were sold, and the prices of these fertilizers rose compared with last year.

##### Operating income

Operating income in the segment amounted to approximately \$75.8 million, an increase of about 39.0% compared with the same quarter in 2006. The percentage of operating income out of sales was approximately 16.8%, compared with 18.9% last year.

The increase in operating income derives from the increase in income as aforesaid, and from a fall in energy prices. Conversely, operating income was adversely affected by appreciation of the shekel/dollar exchange rate and by a sharp rise in marine transportation prices. In addition, operating income in the corresponding quarter in the prior year included insurance payments received in respect consequential loss following flood damages in Sdom at the end of 2004.

### **Potash**

Revenues from potash include sales by Dead Sea Works (excluding the operations of Dead Sea Salts), Iberpotash and Cleveland Potash.

#### **Potash – Revenue and Income**

	<b>1-3/2007</b>	<b>1-3/2006</b>	<b>2006</b>
Revenue*	275.8	177.1	925.1
Operating income	66.3	51.4	245.1

\* Including revenue from inter-segment sales, including potash sales between companies as raw material for fertilizers.

The increase in revenue compared with the same quarter in the prior year derives from a significant increase in the quantity of potash sold. The 28.8% increase in operating income derives mainly from the increase in the quantity of potash sold. .

#### **Potash – Production and Sales**

<b>Thousands of tons</b>	<b>1-3/2007</b>	<b>1-3/2006</b>	<b>2006</b>
Production	1,226	1,259	5,086
Sales to external customers	1,173	677	3,912
Sales to internal customers	50	50	236
Total sales (including internal sales)	1,223	727	4,148

The decrease in potash production derives mainly from the decrease in production in Europe, inter alia as a result of the closure of the Suria mine in Spain. ICL Fertilizers is considering a number of options for further reorganization of its mining operations in Europe.

### **Fertilizers and Phosphates**

Sales revenue for these items derives from sales in Israel and abroad of phosphate rock (as a raw material and for direct fertilization), fertilizers (including phosphate, compound, liquid and fully soluble fertilizers, which include 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 (in millions of \$)**

Millions of dollars	1-3/2007	1-3/2006	2006
Revenue*	184.4	119.0	594.4
Operating income	9.4	1.8	20.2

\* Including revenue from inter-segment sales.

Revenue in the quarter is higher than in the prior year due to an increase in quantities sold and in the selling prices of fertilizers.

The improvement in operating income stems from a rise in selling prices and increased quantities of fertilizers sold, and from a fall in the prices of energy and sulfur. Conversely, operating income was adversely affected by appreciation of the shekel against the dollar and a rise in marine transportation prices.

### Fertilizers and Phosphates – Production and Sales

	1-3/2007	1-3/2006	2006
<b>Phosphate rock</b>			
Production	728	758	2,949
Sales*	96	55	421
<b>Fertilizers</b>			
Production	398	384	1,614
Sales*	505	354	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 derives 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.

During the quarter there was a sharp increase in sales of phosphate fertilizers compared with the same period last year as the result of increased demand in Brazil and in Europe.

### 3.2 ICL Industrial Products

#### Sales

Sales in this segment in the reporting period amounted to approximately \$196.9 million, a decrease of about 10.4% compared with the prior year. The decrease in sales derives from smaller quantities sold, which was partially offset by the higher selling prices of some of the products.

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

Revenue from inorganic bromine products decreased for the period, particularly elementary bromine and clear brines, as a result of the decrease in sales of elementary bromine to the Chinese market and a decrease in quantity of clear brines sold.

Sales of agricultural products increased in quantities sold in the period compared with last year, due to early purchases by customers.

In biocides for water treatment, revenue increased as a result of early purchase by a large account in North America.

Revenue from sales of chlorine-based products from the Dead Sea (Dead Sea salts) decreased, mainly due to the mild winter in North America, which impacted adversely on sales of magnesium chloride, which is the principal product of the unit.

A slight increase was recorded in sales of magnesia products, particularly calcined products.

#### Operating income

Operating income in the segment for the reporting period was approximately \$45.4 million, a decrease of about 27.0% compared with the prior year.

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

### 3.3 ICL Performance Products

#### Sales

Sales in this segment amounted to approximately \$249.1 million, an increase of about 2.8% compared with the prior year. The increase in revenue derives mainly from the strengthening of the euro against the dollar, and from a slight increase in the quantities sold of some of the products in Europe.

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### **Operating income**

Operating income in the segment amounted to approximately \$18.8 million, about 23.9% lower than in the prior year. The margin was approximately 7.5%, compared with 10.2% in the same period in 2006. The decrease stems mainly from a rise in the purchase price of raw materials purchased) from outside sources, and from a fall in the selling prices of some of the segment's products as a result of intensifying competition, as well as a rise in production costs and overhead.

## **4. FINANCIAL POSITION AND SOURCES OF FINANCING OF ICL**

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

In the first quarter of the year, net financial liabilities of ICL decreased by approximately \$36 compared with the balance at the end of 2006, and at the end of the quarter amounted to \$515 million. After the balance sheet date, on April 25, 2007, ICL distributed a net dividend of approximately \$283 million.

The main source of financing of ICL is bank loans for short and long terms, from Israeli and international banks.

### **Cash flow**

ICL's cash flow from ordinary operations in the first quarter of 2007 amounted to \$83.1 million, compared with \$44.7 million last year, an improvement of approximately 86%. The cash flow for the period includes insurance payments received, which were recorded as income in the prior year and were actually received during this quarter. Conversely, the increase in sales also led to an increase in customer receivables, which impacted negatively on cash flow from current operations. Cash flow from current operations was the principal source for financing investments in property, plant and equipment, and for reducing financial liabilities.

### **Insurance**

At the beginning of the second quarter, ICL increase its insurance for physical damage to property and for consequential losses due to earthquake, from \$575 million to \$600 million.

## **5. INVESTMENTS**

In the reporting period, investments in property, plant and equipment net of investment grants amounted to approximately \$47.3 million, compared with investments in property, plant and equipment less grants amounting to \$29.4 million in the same period in 2006.

## **6. HUMAN RESOURCES**

The total number of employees at ICL Group at March 31, 2007 is 9,530, compared with 9,253 on March 31, 2006. The increase in the headcount stems mainly from the reclassifying workers in the ICL Industrial Products segment from contract workers to employees, and from an increase in operations in China.

## **7. MARKET RISK EXPOSURE AND MANAGEMENT**

Below is the update of the sensitivity to changes in exchange rates for the first quarter of 2007:

### Sensitivity analysis on changes in exchange rates

	Profit (loss) from changes		Fair value	Profit (loss) from changes	
	Millions\$		Millions\$	Millions\$	
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
USD/ILS					
Cash and cash equivalents	(0.1)	(0.1)	1.6	0.1	0.2
Marketable securities	0.0	0.0	0.0	0.0	0.0
Short-term investments	(0.3)	(0.2)	3.6	0.2	0.4
Other receivable	(3.3)	(1.7)	36.0	1.9	4.0
Inventories	0.0	0.0	0.0	0.0	0.0
Associated companies	0.0	0.0	0.0	0.0	0.0
Long term deposits	(0.5)	(0.2)	5.2	0.3	0.6
Short-term credit from banks and other	6.6	3.5	(72.9)	(3.8)	(8.1)
Suppliers and other	11.7	6.1	(128.8)	(6.8)	(14.3)
Other payable	15.9	8.3	(174.4)	(9.2)	(19.4)
Employee related obligation	10.5	5.5	(115.9)	(6.1)	(12.9)
Long-term credit from banks	0.0	0.0	0.3	0.0	0.0
Options	(0.95)	(0.30)	0.06	0.22	0.45
Total	40	21	(445)	(23)	(49)

	Profit (loss) from changes		Fair value	Profit (loss) from changes	
	Millions\$		Millions\$	Millions\$	
EUR/USD					
Instrument Type	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Cash and cash equivalents	(0.6)	(0.3)	6.6	0.3	0.7
Marketable securities	0.0	0.0	0.0	0.0	0.0
Short-term investments	(2.4)	(1.2)	25.9	1.4	2.9
Other receivable	(19.4)	(10.1)	212.9	11.2	23.7
Inventories	(12.1)	(6.3)	133.0	7.0	14.8
Associated companies	(8.9)	(4.7)	98.0	5.2	10.9
Long term deposits	(0.4)	(0.2)	4.0	0.2	0.4
Short-term credit from banks and other	13.2	6.9	(145.1)	(7.6)	(16.1)
Suppliers and other	10.9	5.7	(119.4)	(6.3)	(13.3)
Other payable	10.1	5.3	(110.7)	(5.8)	(12.3)
Employee related obligation	9.2	4.8	(100.8)	(5.3)	(11.2)
Short-term credit from banks	2.1	1.1	(22.8)	(1.2)	(2.5)
Forward	(2.4)	(1.2)	(2.2)	1.2	2.4
Options	(4.1)	(3.3)	(0.7)	3.6	9.2
Total	(4.8)	(3.6)	(21.3)	3.8	9.6

	Profit (loss) from changes		Fair value	Profit (loss) from changes	
	Millions\$		Millions\$	Millions\$	
GBP/USD					
Instrument Type	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Cash and cash equivalents	(0.1)	(0.1)	1.1	0.1	0.1
Marketable securities	0.0	0.0	0.0	0.0	0.0
Short-term investments	(0.5)	(0.3)	5.3	0.3	0.6
Other receivable	(0.3)	(0.1)	3.1	0.2	0.3
Inventories	(1.7)	(0.9)	18.5	1.0	2.1
Short-term credit from banks and other	0.2	0.1	(1.8)	(0.1)	(0.2)
Suppliers and other	0.6	0.3	(6.3)	(0.3)	(0.7)
Other payable	2.2	1.1	(23.7)	(1.2)	(2.6)
Employee related obligation	(0.1)	(0.1)	1.3	0.1	0.1
Total	0.2	0.1	(2.5)	(0.1)	(0.3)

	Profit (loss) from changes		Fair value	Profit (loss) from changes	
	Millions\$		Millions\$	Millions\$	
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
JPY/USD					
<b>Instrument Type</b>	<b>Rise of 10%</b>	<b>Rise of 5%</b>		<b>Fall of 5%</b>	<b>Fall of 10%</b>
Cash and cash equivalents	(0.1)	(0.1)	<b>1.2</b>	0.1	0.1
Marketable securities	0.0	0.0	<b>0.0</b>	0.0	0.0
Short-term investments	0.0	0.0	<b>0.0</b>	0.0	0.0
Other receivable	(1.9)	(1.0)	<b>20.5</b>	1.1	2.3
Inventories	(0.9)	(0.5)	<b>9.5</b>	0.5	1.1
Associated companies	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Long term deposits	(0.0)	(0.0)	<b>0.1</b>	(0.0)	(0.0)
Short-term credit from banks and other	0.2	0.1	<b>(2.2)</b>	(0.1)	(0.2)
Suppliers and other	0.4	0.2	<b>(4.7)</b>	(0.2)	(0.5)
Other payable	(0.0)	(0.0)	<b>0.2</b>	(0.0)	(0.0)
Employee related obligation	0.1	0.1	<b>(1.2)</b>	(0.1)	(0.1)
Forward	0.8	0.4	<b>0.2</b>	(0.4)	(0.8)
Option	0.9	0.4	<b>0.2</b>	(0.3)	(0.6)
<b>Total</b>	<b>(0.4)</b>	<b>(0.3)</b>	<b>23.6</b>	<b>0.5</b>	<b>1.2</b>

	Profit (loss) from changes		Fair value	Profit (loss) from changes	
	Millions\$		Millions\$	Millions\$	
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Real Brazil/USD					
<b>Instrument Type</b>	<b>Rise of 10%</b>	<b>Rise of 5%</b>		<b>Fall of 5%</b>	<b>Fall of 10%</b>
Cash and cash equivalents	(0.2)	(0.1)	<b>2.4</b>	0.1	0.3
Marketable securities	0.0	0.0	<b>0.0</b>	0.0	0.0
Short-term investments	0.0	0.0	<b>0.0</b>	0.0	0.0
Other receivable	(0.5)	(0.2)	<b>5.0</b>	0.3	0.6
Inventories	(0.6)	(0.3)	<b>6.3</b>	0.3	0.7
Associated companies	(0.8)	(0.4)	<b>8.3</b>	0.4	0.9
Suppliers and other	0.2	0.1	<b>(1.8)</b>	(0.1)	(0.2)
Other payable	0.2	0.1	<b>(1.8)</b>	(0.1)	(0.2)
<b>Total</b>	<b>(1.7)</b>	<b>(0.9)</b>	<b>18.3</b>	<b>1.0</b>	<b>2.0</b>

**Sensitivity analysis on changes in interest rates**

	Profit (loss) from changes		Fair value	Profit (loss) from changes	
	Millions\$		Millions\$	Millions\$	
Interest Libor variable	5.907	5.6385	<b>5.37</b>	5.1015	4.833
<u>The kind of instrument</u>	<u>Rise of 10%</u>	<u>Rise of 5%</u>		<u>Fall of 5%</u>	<u>Fall of 10%</u>
Loans at fixed interest	4.2	2.1	<b>(212.2)</b>	(2.1)	(4.2)
Loan at variable interest			<b>(554.3)</b>		
Collar transaction	0.5	0.3	<b>1.9</b>	(0.2)	(0.4)
Cap option	0.4	(0.0)	<b>1.7</b>	(0.2)	(0.5)
Swap transaction	(2.1)	(1.0)	<b>(2.4)</b>	1.1	2.2
Total	3.0	1.3	<b>(765.3)</b>	(1.4)	(2.9)

Below is the update of the derivatives position for the first quarter of 2007:

Hedging transactions against the effects of changes in exchange rates of cash flows-in thousands dollars				
	Nominal Value Up to One Year		Fair Value Up to One Year	
	Long	Short	Long	Short
<b><u>Direction of transaction in derivatives is Dollar purchase</u></b>				
<b>Currency: Euro/dollar in \$"000s</b>				
<i>Setoff recognized for accounting</i>	8,000		(823)	
<i>Setoff not recognized for accounting</i>	16,000		(1,328)	
<b><u>Call Options</u></b>				
<i>Setoff recognized for accounting</i>	82,018		(1,038)	
<b><u>Put Options</u></b>				
<i>Setoff recognized for accounting</i>	77,039		301	
<b>Currency: JPY/dollar in \$"000s</b>				
<b><u>FORWARD</u></b>				
<i>Setoff recognized for accounting</i>	8,111		161	
<b><u>Call Options</u></b>				
<i>Setoff recognized for accounting</i>	13,000		209	
<b><u>Put Options</u></b>				
<i>Setoff recognized for accounting</i>	13,000		(56)	
<b><u>Direction of transaction in derivatives is GBP purchase</u></b>				
<b>Currency: Euro/GBP in \$"000s</b>				
<b><u>FORWARD</u></b>				
<i>Setoff recognized for accounting</i>				
<b>Currency: ILS/ USD in \$"000s</b>				
<b><u>Call Options</u></b>				
<i>Setoff recognized for accounting</i>		14,000		
<b><u>Put Options</u></b>				
<i>Setoff recognized for accounting</i>		4,000		
<b>Currency: ILS/Euro in \$"000s</b>				
<b><u>Call Options</u></b>				
<i>Setoff recognized for accounting</i>				(12)
<b><u>Put Options</u></b>				
<i>Setoff recognized for accounting</i>				70

Interest-hedging transactions – for hedging changes in variable interest rate (LIBOR) on dollar loans								
	Fair Value				Nominal Value			
	More than one year		Up to one year		More than one year		Up to one year	
	Long	Short	Long	Short	Long	Short	Long	Short
Swap Caps	36,000		450,000	125,000	267		3,309	(2,372)
Floors	6,000		350,000					

## 8. UPDATE ON THE DESCRIPTION OF THE COMPANY'S BUSINESS

- 8.1 **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. Under 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 to 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 great. A small number of sinkholes have also appeared in the area of the evaporation ponds, and in other places in the Dead Sea Works area. The development of a sinkhole under a dike could cause the dike to burst, causing loss of the solutions in the pond. ICL Fertilizers is working to locate the development of sinkholes in the area of the plant, and to fill them in when they appear.
- 8.2 **Legal proceedings in connection with the Kishon stream** (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 against a number of factories along the banks of the Kishon stream, including against Fertilizers & Chemicals Ltd. ("FCL"), a subsidiary in the ICL Fertilizers segment. 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, and allowed the authorities to exercise their discretion in connection with the rehabilitation of the Kishon, noting the considerable improvement in recent years in the quality of the stream's water and its condition. In its decision, the court also mentioned, among other things, 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 Rowing Club Association filed an appeal of the decision in the District Court of Haifa.
- 8.3 **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 Sdom, and also purchases electricity from Israel Electric Corporation. On August 31, 2006, Dead Sea Works received from ICL Fertilizers a license to generate electricity using power and heat facilities (co-generation) in a total capacity of between 400 and 700 megawatts. The license is conditional upon Dead Sea Works meeting a series of milestones. On February 28, 2007, Dead Sea Works gave notice that it requests, at this stage, a license for a 400 megawatt station. Beyond that, up to 700 megawatt, there is currently no solution for an electricity-transporting infrastructure from Sdom to the center of the country, nor is such a solution foreseen within the next few years. Therefore, the request was made to grant a license for a 400 megawatt station. On May 1, 2007, Dead Sea Works was

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scheduled to comply with a milestone relating to the commercial regulation of the supply of natural gas. Since this matter has not yet been solved at the national level, it was agreed with the electricity authority that they would renew Dead Sea Works' license and revise the milestones accordingly within the coming weeks, and all as is being done for other licensed entities which are faced with the same problem with regard to natural gas.

As part of its implementation of the strategy of developing into new fields, of cost saving and of expanding activities in China and India, the segments of ICL have been active in the following areas<sup>2</sup>:

- ICL fertilizers signed a memorandum of understanding with an Indian partner to establish a 50-50 joint venture for the production and distribution of specialty fertilizers in India on the basis of ICL Fertilizers' technology.
- ICL Industrial Products signed a memorandum of understanding with some local producers in China to establish a joint venture for the production of a major raw material used in the production of chlorine-based biocides. ICL Industrial Products' share of the joint venture will be 65% and the remainder will be owned by the local producers.
- ICL Industrial Products signed a memorandum of understanding to purchase an additional 25% in the joint venture it has with a local Chinese company to produce bromine compounds in China. After the purchase, ICL Industrial Products' share in the JV will be reach 75%.
- ICL Performance Products signed a memorandum of understanding to establish a joint venture for the production and marketing in China of phosphate salt based products for the hygiene market. ICL Performance Products' share of the Joint venture will be 51% and the remainder will be held by the local partner.

**8.4 Directives in connection with Environmental matters** (Section 4.2.14(b) of the Periodic Report): On March 28, 2007, two claims were filed in the Be'er Sheva District Court against the State of Israel and Ramat Hovav Industrial Regional Council. The Council is the local industrial council within whose jurisdiction all the factories in the Ramat Hovav area operate; among them the bromine compounds plant of the ICL Industrial Products segment. The first claim was filed by 54 residents of the of the dispersed Bedouin community in the Negev region; the second claim was filed by nine residents from the Be'er Sheva area. The plaintiffs allege that various pollutions in the Ramat Hovav area caused the sicknesses from which they suffer, such as respiratory diseases, miscarriages, congenital defects, cancer, and others. The claims sue for amounts of money in respect of the plaintiffs' treatment expenses, as well as compensation for suffering and distress, and punitive damages. The plaintiffs estimate the total amount of the claims at more than NIS 188 million (about \$45 million).

**8.5 Subordination of operations to certain laws – the secondary concession** (Section 4.2.16A(1) of the Periodic Report): May 13, 2007, a subsidiary, Dead Sea Works Ltd. (hereinafter – DSW) received a letter from the controller of the Ministry of Industry, Trade and Labor wherein it is contended that DSW transferred manufacturing activities to subsidiaries not in accordance with the concession and that it calculates and pays an insufficient amount of royalties, which the controller of the Ministry of Industry, Trade and Labor estimates at more than \$ 20 million with respect to a subsidiary, Bromine Compounds Ltd., in respect of the years 1999-2005. DSW was requested to provide a response to this issue and to provide details. The Company believes that these contentions have no grounds and that it acts and has

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<sup>2</sup> The information in this paragraph includes forward-looking statements. and are based on ICL Fertilizers' projections. These can be no certainty regarding the accomplishment of these plans or their success, or if they will be profitable. The realization of these plans is dependent, inter alia, upon concluding detailed agreements with the parties, upon receiving approvals from the authorities and from third parties, upon cooperation between the parties, upon the market conditions in China or India, upon factors affecting input costs and product prices and upon all the uncertainty involved with establishment and running-in of a new venture, in general, and particularly a new industrial/commercial venture.

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acted according to the provisions of the concession and the decisions of the Government. Accordingly no provision was recorded in the financial statements.

- 8.6 **Benefits and the essence of employment agreements** (Section 5.2 of the Periodic Report): A collective labor agreement of Dead Sea Works of the ICL Fertilizers segment was in force until September 2006. At the reporting date, negotiations are in progress on extending the agreement. In May 2007, the principles of the extension were agreed, and are subject to the execution of a detailed agreement. Rotem Amfert Negev has a collective agreement valid until the end of April 2007. Dead Sea Bromine of the ICL Industrial Products segment has a collective agreement valid until the end of December 2007. Dead Sea Magnesia has a collective agreement valid until the end of June 2007. At the reporting date, a request was received from the workers committee at Dead Sea Magnesia, to commence negotiations on the agreement before it ends. Regarding the negotiations for renewal of the labor agreements, sanctions are occasionally imposed in the companies.
- 8.7 **Rise in the level of Pond 150** (Section 4.1.15(g) of the Periodic Report): On May 13, 2007, the Government adopted another decision whereby the Ministry of Tourism would coordinate the handling of planning and implementation of interim protections at the Dead Sea, as part of the ongoing activities of intermediate stage (A/2), which concerns actions for protection and maintenance of the shore and the hotel area near the Dead Sea, and completion of the feasibility tests of long-term protective measure alternatives. For this purpose, and in order to create a budget framework, the Government announced that it would transfer a budget of NIS 200 million to the Ministry of Tourism. It was also decided to appoint a committee to oversee the project, to appoint the Government Company for Tourism as the project manager, and to ensure that those involved would be able to obtain assistance from entities operating in the region. The Government also decided that the Dead Sea protection project would be declared an infrastructure project of national importance pursuant to the Planning and Construction Law, 5725-1965, and that the Ministry of Tourism must prepare a plan for a national infrastructure and submit it to the National Infrastructures Committee, for advancing the planning proceedings. It was also decided that the Minister of Finance would introduce into the regulations the financing arrangements between the various partners for the matter of completing the Dead Sea protections, including how the funds would be allocated.

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**9. EVENTS DURING AND AFTER THE PERIOD**

- 9.1 On January 28, 2007, the Company decided on a reward program for senior managers, under which stock options exercisable for up to 12,900,000 shares would be allocated – see Section 5.2E in the section "Description of the Corporation's Business" in the 2006 annual report. On January 28, 2007, the Company allocated approximately 5.4 million stock options from the said program, of which 2.2 million stock options were awarded to the CEO of the Company. On March 27, 2007, another approximately 6.4 million stock options from the said program were allocated. The remainder of the stock options of the program which were not allocated expired on March 28, 2007.
- 9.2 On March 27, 2007, the Board of Directors of the Company 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 in respect of part of the year's profits. Accordingly, a dividend of \$283.9 million was distributed on April 25, 2007 (\$283.4 million net, after deduction of the part of a subsidiary).
- 9.3 On May 28, 2007, the Board of Directors of the Company resolved to distribute a dividend of approximately \$66.8 million (approximately \$66.7 million net, after deduction of the part of a subsidiary), which will be distributed on June 18, 2007.
- 9.4 The Chairman of the Board, Mr. Yossi Rosen, informed the Board of Directors that he intends to cease acting 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 decided to appoint Mr. Nir Gilad as the permanent substitute Chairman of the Board

**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.**

May 28, 2007

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Akiva Mozes  
CEO

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Yossi Rosen  
Chairman of the Board