

ICL-ISRAEL CHEMICALS LTD.  כימיקלים לישראל בע"מ

Periodic Report

For 2008

Contents

1. Chapter 1 – General	6 - 8
2. Chapter 2 – Description of General Development of Company’s Business	9 - 19
2.1 General	9 - 16
2.1.2. The Company’s competitive advantages	
2.1.3. Corporate structure	
2.1.4 Year of incorporation of the Corporation and corporate structure	
2.1.5 Acquisition of material assets	
2.1.6 Changes in the management of the company’s business	16 - 17
2.2 Areas of Activity	
2.3 Capital Investment in the Corporation and Transactions in its Shares	17 - 18
2.4 Dividend Distribution	18 - 19
2.4.1 Details regarding the distribution of dividends in the preceding two years	
2.4.2 Dividend distribution policy	
3. Chapter 3 – Other Information	20 - 35
3.1 Financial Information Regarding the Corporation’s Areas of Operations	20 - 21
3.2 General Business Environment and Influence of External Factors on ICL	22 - 30
3.3 Sustainable Development Policy – Environmental and Safety Responsibility and Compliance with the Law	30 - 38
3.3.1 Goals and targets in the areas of Environment and safety and examples of their realization	
3.3.2 Safety and health	
3.3.3 The environment and environmental risk management	
3.3.3 The environment and environmental risk management	
3.3.4 Objective and activities to lead in reduction of emissions, particularly greenhouse gases	
3.3.5 Environment monitoring	
3.3.6 Community involvement in topics of environment	
3.3.7 Social responsibility and involvement to advance society and the environment	
3.3.8 Code of ethics and internal compliance programs	
3.4 Corporate Governance	38-39
3.5 Potential Production Capacity	39-40
4. Chapter 4 – Description of the Corporation’s Business by Area of Activity	41 - 117
4.1 ICL Fertilizers	41 - 76
4.1.1 General information about ICL Fertilizers	41 - 51
4.1.2 Products and services	52
4.1.3 Breakdown of revenues and profitability of products and services	52
4.1.4. New Products	52
4.1.5. Customers	53
4.1.6. Marketing and Distribution	53
4.1.7. Competition	53 - 56
4.1.8. Seasonality	57

4.1.9 Production	56 - 57
4.1.10 Research and development	57 - 58
4.1.11 Raw materials and suppliers	58
4.1.12 Working capital	58 - 9
4.1.13 Environmental matters	59 - 62
4.1.14 Safety and health	62 - 63
4.1.15 Limitations on and regulation of the Corporation	63 - 70
4.1.16 Legal proceedings	70 - 71
4.1.17 Goals and business strategy	72 - 73
4.1.18 Matters Outside the Ordinary Course of Business	73 - 76
4.2 ICL Industrial Products	77 - 102
4.2.1 General Information regarding ICL Industrial Products	77 - 82
4.2.2 Products and services	82
4.2.3 Detail of sales and profitability of products and services	82
4.2.4 New products	83
4.2.5 Customers	83 - 84
4.2.6 Marketing and distribution	84
4.2.7 Competition	84 - 86
4.2.8 Seasonality	86
4.2.9 Production	86
4.2.10 Research and development	86 - 87
4.2.11 Intangible assets – patents and trademarks	87
4.2.12 Raw materials and suppliers	87 - 89
4.2.13 Working capital	89 - 90
4.2.14 Environmental matters	90 - 94
4.2.15 Safety and health	94 - 95
4.2.16 Limitations on and regulation of the Corporation	95 - 99
4.2.17 Legal proceedings	100-101
4.2.18 Goals and Business Strategy	101 - 102
4.3 ICL Performance Products	103 - 117
4.3.1 General information regarding ICL Performance Products	103 - 106
4.3.2 Products and services	107
4.3.3 Detail of sales and profitability of products and services	107
4.3.4 New products	108
4.3.5 Customers	108
4.3.6 Marketing and distribution	108
4.3.7 Competition	109 - 110
4.3.8 Seasonality	110
4.3.9 Production	110
4.3.10 Research and development	111
4.3.11 Intangible assets – patents and trademarks	111

4.3.12 Raw materials and suppliers	112
4.3.13 Working capital	112
4.3.14 Environmental matters	113
4.3.15 Safety and health	114
4.3.16 Limitations on and regulation of the Corporation	114 - 116
4.3.17 Legal proceedings	116
4.3.18 Goals and business strategy	116
4.3.19 Significant investment activities	117
4.4 Other Activities	117-118
5. Chapter 5 – Additional General Corporate Information	119 - 139
5.1 Property, Plant and Equipment	119 - 122
5.2 Human Resources	123 - 127
5.3 Financing	127 - 129
5.3.1 Financial situation and sources of financing	
5.3.2 Average interest rates	
5.3.3 Sale of customer receivables through securitization transactions	
5.3.4 Amount of credit received during the period of this report	
5.3.5 Limitations of the Company's ability to receive credit	
5.3.6 The Company's revolving credit facilities and their terms	
5.3.7 Credit rating of the Corporation	
5.4 Taxation	129
5.5 Environmental Matters	129
5.6 Safety	129
5.7 Limitations on and Regulation of the Corporation	129 - 131
5.7.1 Restrictive trade practices	
5.7.2 Special State share	
5.8 Business Goals and Strategy	131 - 134
5.9 Financial Information Regarding Geographical Segments	134
5.10 Risk Factors	134 - 139
5.10.1 Currency exchange rate fluctuation	
5.10.2 Increase in interest rate and banking legislation	
5.10.3 War or acts of terror	
5.10.4 Activities in various countries around the world	
5.10.5 – 5.10.7 Industry-related risks	
5.10.8 Subjection to legislative and licensing restrictions	
5.10.9 Exposure relating to environmental protection and safety	
5.10.10 Third party liability and product liability	
5.10.11 Pensions and health insurance	
5.10.12 Volatility	
5.10.13 Concessions and permits	
5.10.14 Natural disasters	

5.10.15 Water level in Pond 15

5.10.16 Price of water and energy

5.10.17 The Sea Canal

5.10.18 Labor disputes

5.10.19 Dependence on seaports, transportation and loading in Israel

Description of Corporation's Operations

Chapter 1 – General

Israel Chemicals Ltd. is honored to present a report regarding various matters relating to the description of corporate activity for the year 2008 (hereinafter: the "**Report Period**"), which encompasses a description of the corporation and the development of its business activities, The financial data contained in this report are set out in US dollars.

Facts that appear in this report "as of the date of the report" are current as of March 29, 2009, unless otherwise stated.

The materiality of the information included in this report, including the description of material transactions, has been evaluated from the Company's perspective. In some cases, even where the matters are not material from the Company's perspective, the description has been expanded in order to give a broad picture of the described issue.

This report is presented as part of the periodic report for 2008, on the assumption that the other sections of the periodic report are also in front of the reader.

The information contained in this Chapter includes forward-looking information, inter alia. This information might not occur, in whole or in part, in the future. Assessments regarding the state of the market in general and forecasts regarding the state of the market in the future, where taken from external sources, are cited as is, and the Company is not responsible for their correctness, nor their occurrence.

In this report, unless otherwise implied by context, the following terms will have the meanings detailed below:

ICL or the Company	Israel Chemicals Ltd., including its consolidated companies
Segment	A managerial division of ICL as described in section 2.1.3 and section 2.2
ICLFE	ICL Fertilizers Europe – a unit within the ICL Fertilizers segment which
DSW	Dead Sea Works Ltd. of the ICL Fertilizers segment
Tami	Tami (IMI) Research and Development Institute Ltd. – the central research
IP	Iberpotash SA – a Spanish company of the ICL Fertilizers segment.
BKG	A company in the ICL Performance Products segment, based in Germany.
CPL	Cleveland Potash Ltd. – a UK company of the ICL Fertilizers segment.
Amfert	Amsterdam Fertilizers B.V. a Dutch company of the ICL Fertilizers
F&C	Fertilizers and Chemical Materials Ltd. – in the ICL Fertilizers segment.
“Astaris”	Astaris LLC – a corporation from which operations and assets were
“ICL PP America”	The assets and operations acquired from Astaris and other companies in
Supresta	Supresta Inc. and ICL-IP Bitterfeld GmbH in the ICL Industrial Products
Rotem	Rotem Amfert Negev Ltd., of the ICL Fertilizers segment
The Bromine Company	Dead Sea Bromine Company Ltd. of the ICL Industrial Products segment.
Bromine Compounds	Bromine Compounds Ltd., a subsidiary of the Bromine Company, of the
DSM	Dead Sea Magnesium Ltd.
Israel Corp	The Israel Corporation Ltd., which is the controlling shareholder of ICL.
PCS	Potash Corporation of Saskatchewan Inc., a Canadian company, the
Salt	Unless otherwise specified, sodium chloride: NaCl.
FAO	The Food And Agriculture Organization of The United Nations – an
ISO	The International Management standard in various fields
Responsible Care	An international program of chemical industry companies for the
HACCP	Hazard Analysis and Control Point - A system of rules and monitoring of
EMAS	Eco-Management and Audit Scheme – a voluntary initiative of the
REACH	Registration, Evaluation and Authorization of Chemicals – a framework
OSHA	Standards published by the US Federal Occupational Safety & Health
Dollar	U.S. dollar.
N	The element nitrogen, one of the three main plant nutrients.
P	The element phosphorus, one of the three main plant nutrients.
K	The element potassium, one of the three main plant nutrients.
Potash	KCl, used as a plant’s main source of potassium.
Phosphate	Phosphate rock that contains the element phosphorus, measured in units
FertEcon	A professional publication in the field of fertilizers.

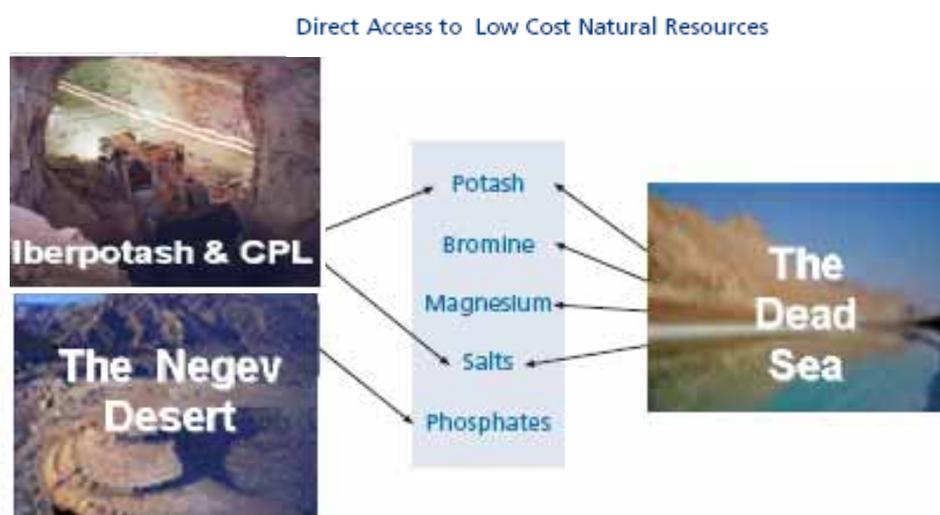
USDA	United States Department of Agriculture.
CRU/ British Sulfur	A professional research and analysis institute – dealing with, among
Zafir Site	ICL Fertilizers phosphate mining and development sites, located at Zin and
IFA	The International Fertilizers Association – an international association of
“Bromine”	A chemical element used as a basis for a wide variety of uses and
"TBBA ",	Bromine-based flame retardants
"HBr"	Hydrobromic acid

Chapter 2 – Description of General Development of Company’s Business

2.1 General

2.1.1 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 as on potash and salt mines in England and Spain under leases and concessions from the competent authorities in those countries. ICL is active in the production of these minerals, in their sale throughout the world, and also in the development, manufacture and marketing of downstream products based primarily on these raw materials.



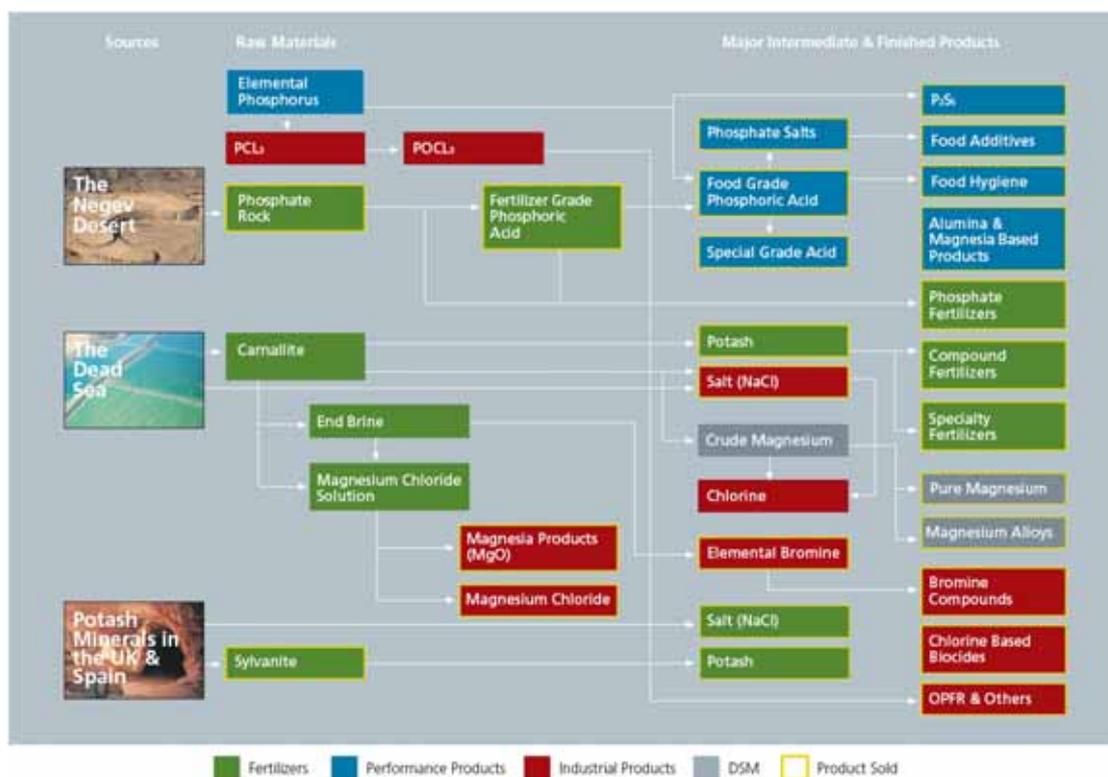
ICL has a prominent position in the markets for potash, bromine, pure phosphoric acid, special phosphates, bromine based and phosphorus-based flame retardants and chemicals for the prevention of the spreading of fires see section 2.1.2(b)) . Potash and phosphate are core components of fertilizers. Bromine is used in a wide range of applications, primarily as a basic ingredient of flame retardants. (ICL’s products are used primarily in the areas of agriculture, electronics, food products, oil and gas drilling, water purification and desalination, and in the detergent, paper, cosmetics, pharmaceutical, automotive and aluminum industries and others. ICL has decades of accumulated experience in most of its businesses.

ICL has direct access to most of the raw materials required for its activities, at low cost and high quality, by virtue of the exclusive concession granted to ICL by the State of Israel for extraction of minerals from the Israeli side of the Dead Sea, in return for payment of royalties to the State (for details, see section 4.1.15 below). The costs of production of the potash and bromine that are 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 based in Israel, Germany, the United States, the Netherlands, Spain, the UK, China, Brazil, and France. ICL has other production facilities in Austria, Belgium, Turkey, Argentina, and Australia.

ICL's operations outside of Israel are primarily in the production of products that are complimentary to or are based on ICL's operations in Israel or related fields. Approximately 94% of ICL's production is sold outside of Israel.

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

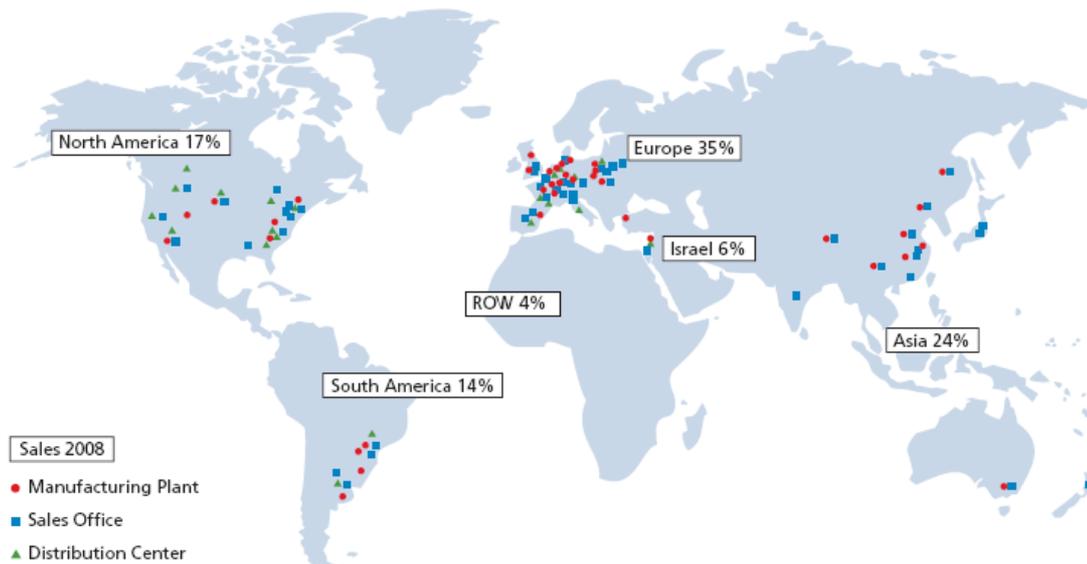


Approximately 6% of ICL's total sales occur in Israel. Regarding these sales, for some specific products, ICL and some of the ICL companies have been declared a monopoly in Israel.

In 2008, approximately 56% of ICL's sales revenue arose from production activities taking place outside of Israel. Approximately 6% of the cost of sales of the products produced outside of Israel is attributable to raw materials supplied from Israel.

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

The following chart shows the geographical distribution of ICL's sales in 2008, and a description of the location of the Company's principal sites:



2.1.2 The Company's competitive advantages

The Company believes that its business strength derives from the competitive advantages set out below:

- A. Direct access to natural resources - ICL has concessions for mineral production from the Dead Sea, for mining phosphate rock in the Negev Desert, and also concessions for mining of potash and salt from underground mines in Spain and England, in consideration for which it pays royalties as a percentage of its sales, or as a percentage of the area of the land leased. The Dead Sea is a vast (practically inexhaustible) and highly concentrated source of reserves of potash, bromine, magnesium and salt.
- B. Leading market positions – ICL has a leading position in the following product lines, and, in its estimation, its ranking in the world market is as follows¹:

Product	Business Segment	Rank in International Market in 2008
Potash	ICL Fertilizers	Sixth
Elemental bromine	ICL Industrial Products	First
Pure Phosphoric Acid	ICL Performance Products	First
Specialty phosphates	ICL Performance Products	First
Phosphorus-based flame retardants	ICL Industrial Products	First
Fire retardants	ICL Performance Products	First

¹ Sources: Potash – 2008 data as published in December to February 2008 by the IFA; by Fertecon and by competing companies; for bromine, USGS Minerals Yearbook; Bromine – October 2006, US Department of the Interior, as well as data from the Company and from competing companies; Phosphoric acid and special phosphates – data as collected by the Company from the annual reports and various reports of competitors. The Company is not responsible for the veracity of external data.

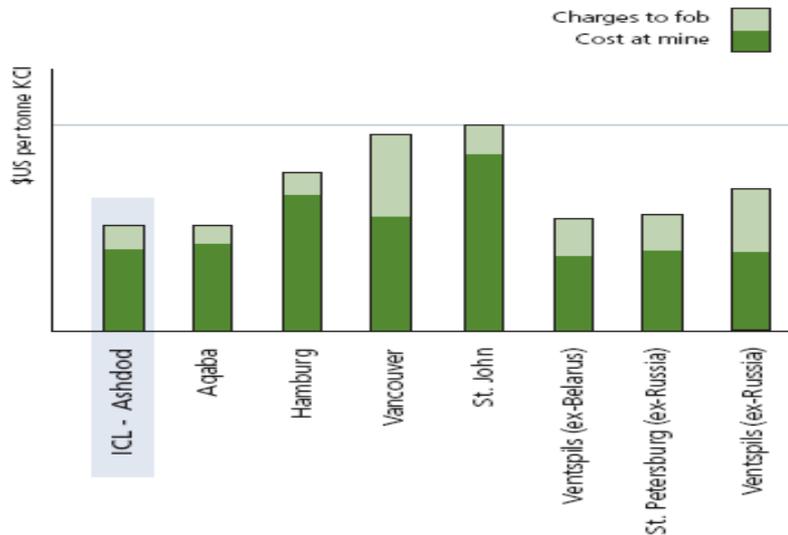
Similarly, ICL has a leading position in a number of niche markets for specialty chemicals and specialty fertilizers.

- C. Low costs – the Company’s business strength derives mainly from the location of ICL’s facilities next to the Dead Sea, the relatively low cost of shipping from plant to customer, and the ability to integrate production processes, by-products and the Company’s products to make the most of operational advantages, as set out below:

1. The relatively low production costs in Sodom derive primarily from the high concentration of minerals in the Dead Sea and the relatively low cost of their production compared with mining potash from underground deposits or extraction of bromine from less concentrated sources, and due to the fact that production of them at Sodom is effected by using solar energy in the evaporation process.

In light of the fact that the Company produces and mines most of its principal raw materials on its own, the Company is less exposed to price fluctuations of raw materials than its competitors who purchase raw materials from external suppliers.

Company’s Potash Production Costs Compared with Competitors:



Source: British Sulfur/CRU (March 2007)

2. Production without dependence upon storage limitations – The hot and dry climate of the Dead Sea enables the Company to store, at particularly low cost, large quantities of potash in open areas. This advantage in storage capability enables the Company to produce continuously at Sdom, without dependency on the fluctuations in the worldwide demand for potash. In addition, ICL Fertilizers has some flexibility in directing sales from its various sources in Israel and Europe, thereby reducing the harm to potash production in Europe.
3. Relatively low shipping costs – ICL enjoys relatively low shipping costs due to the location of most of its facilities fairly close to seaports in Israel and worldwide. The location of ICL Fertilizers’ facilities in Israel gives it a logistical advantage over some of its competitors. ICL’s facilities are based in the Negev Desert, so it can ship its bulk products, through the Port of Ashdod towards Europe and South America and through the Port of Eilat towards Asia, Africa and Oceania. The Company has dedicated bulk-loading port facilities in Israel – in Ashdod and Eilat; and in Europe – in Barcelona (IP); Amsterdam; Ludwigshafen (AMFERT); and Teesside, England (CPL).

4. Synergies – ICL benefits from synergies within the Company that reduce its production cost by, among other things, utilizing by-products and waste from one process as a raw material for another process. For example, the production of bromine is based on utilizing the bromine in the end brines resulting from potash production, where its concentration is higher than in the Dead Sea water. Magnesia is produced from brines rich in magnesium chloride that result as by-products from potash production in Sodom; ICL Fertilizers uses a by-product of the process of producing metal magnesium (sylvinite) to produce potash; ICL Industrial Products uses chlorine that is released by the process of producing metal magnesium, to produce bromine, etc.
- D. Manufacture of products with high added value – ICL efficiently utilizes various basic materials that are produced in its plants and turns them into downstream products with high added value. For example, ICL Fertilizers produces fertilizer-grade phosphoric acid from phosphate rock that it extracts from open-pit mines in the Negev Desert. ICL Performance Products further refines this acid into pure phosphoric acid that enables ICL Performance Products to manufacture phosphate salts and hygiene products. Phosphate salts are also used in the manufacture of food additives.
- E. Significant entry barriers – the entry of new competitors in many of the Company's areas of business would be expensive and time-consuming. This is due to the high costs needed for establishing production facilities of a nature similar to those of ICL and the relatively long time that is required from the date of passing a resolution to enter into a field and the date when products can actually be sold on the market, the special mining concessions that the Company holds, the intellectual property (proprietary knowledge, technologies and patents for various products and applications), and its international marketing and distribution systems.
- However, it should be emphasized that in some of the main areas of operation of the Company, existing manufacturers may well increase their production capacity.
- F. Relatively high positive cash flow from operations – In 2008 and 2007, the cash flow from operations of ICL was about \$1,884 million and \$571 million, respectively. ICL's high cash flows enable it to appropriately maintain and expand its production facilities, invest in infrastructure, invest in the environment, establish new plants, take advantage of acquisition opportunities, effect a share buy-back and distribute dividends to Company shareholders.
- G. Wide global presence with diversified businesses – the distribution of ICL's international activities around the world reduces the exposure of its businesses to regional changes in different geographical areas. In addition, ICL produces and sells a wide range of products, for use in different industries throughout the world. In 2008, the Company did not have any single customer that accounted for more than 10% of the total sales of the Company.
- H. Company management – ICL's operations are managed by a management team with rich industry experience. The CEO of ICL and most of the senior managers of the Company have more than 25 years of experience at ICL.

2.1.3 Corporate structure

The following chart describes the administrative segments of ICL as at the date of this report²:

Fertilizers	Industrial Products	Performance Products
<u>Potash</u> <ul style="list-style-type: none">> Standard, compacted & fine> Red, & white from 3 sources	<u>Flame Retardants</u> <ul style="list-style-type: none">> Based on bromine & organophosphorus	<u>Speciality Phosphates</u> <ul style="list-style-type: none">> Technical, food grade & electronic grade phosphoric acid> Food additives> Water treatment chemicals & services
<u>Phosphates</u> <ul style="list-style-type: none">> Phosphate rock> Phosphoric acid> Fertilizers> Animal feed additives	<u>Elemental Bromine</u>	<u>Other Products</u> <ul style="list-style-type: none">> Based on phosphorus, phosphate, alumina & other chemicals
	<u>Other Chemicals</u> <ul style="list-style-type: none">> Organic and inorganic bromine compounds> Bromine and chlorine based biocides for water treatment> Functional fluids based on phosphorus> Soil fumigation chemicals> Magnesia products	

2.1.4 Year of incorporation of the Corporation and corporate structure

ICL is a limited liability company established in 1968 as a government company.

In 1975 the shares of various development companies (including, among others, the Dead Sea Works, the companies today consolidated as Rotem Amfert Negev, the bromine companies, and Tami) were transferred to ICL.

In 1992, following a decision by the Israeli government to privatize ICL, the State published its tender prospectus, and the shares of ICL were listed on the Tel-Aviv Stock Exchange Ltd. (hereinafter the "TASE"). Prior to its public share issuance, ICL issued to the State of Israel a special State share (the "**Special State Share**") in ICL and its main Israeli subsidiaries (for rules of the **Special State Share** and the rights it affords the State, see section 5.7.2 of this report.).

In 1995 the State of Israel sold the controlling interest in ICL (representing approximately 24.9% of ICL's shares) to the Israel Corporation, which was controlled at that time by the Eisenberg family. A majority of the ordinary shares held by the State in ICL were sold during the following years. In 2000, the State of Israel ceased to be an interest holder in ICL in terms of holding any ordinary shares in ICL, but it retained the Special State Share. In 1999 the Ofer Group acquired control of the Eisenberg family's shares in the Israel Corporation.

As part of ICL's strategy, which was defined in 1999, ICL began an organizational process in order to achieve focused management of its core business activities, to make the most of the synergies between the Company's various activities, to increase the efficiency of the various business units and to reduce operating costs.

Within the framework of this process, in the period 1999-2001, ICL purchased all the minority interests in ICL's publicly listed companies. Management segments were defined and management teams were set up for these segments which are responsible for the management of all the business units in the segments. The division into segments matches ICL's new management concept which is based on matrix management, and does not necessarily correspond to the legal structure of the companies in the Group. Subsequently, the holding structure of the Company's subsidiaries and representative offices around the world was reorganized.

² For details of the legal structure of the ICL Group, see the list appended to the financial reports, which are attached to this report.

Within the framework of the establishment of the business segments, ICL's operations were as follows:

In the ICL Fertilizer segment, management and the network of marketing, sales, land transportation, sea shipping and loading facilities at the ports in Israel and Europe were consolidated, and ICL Fertilizers Europe was established in order to coordinate ICL Fertilizers' activities in Europe.

In the ICL Industrial Products segment, management, marketing, sales and shipping of all areas of industrial chemicals were consolidated in Israel and worldwide.

Responsibility was transferred to ICL Performance Products, which as of November 2005 also includes the operations acquired from Astaris, for the operations relating to pure phosphoric acid, which is manufactured in Israel. As a result, a unit was established that coordinates all of ICL's operations with regard to specialty phosphates. Managers were also appointed for the various geographical units and areas of operation within the sector.

In 2007, the headquarters of the various units of ICL in North America were consolidated into one single central headquarters. In 2008 Supresta's headquarters were absorbed within this North American headquarters..

Alongside the structure of management by segments, which, as mentioned above, does not correspond to the legal structure of the Group, organizational headquarters were set up at ICL on a geographical basis, which were intended to coordinate operations in the same geographical area among the various companies, to increase efficiency and prevent duplication and to realize the synergies between the segments in each area, all without derogating from the overall responsibility of the segments for the companies, and for the business units for which they are responsible.

Accordingly, in North America, China and Brazil, CEOs have been appointed who are responsible for all of ICL's operations in North America, China and Brazil.

For additional details about the Company's strategy see section 5.8 below.

As at the date of this Report, the persons with an interest in the Company by virtue of their shareholdings are:

Name	% Holding ³	% Holding Fully Diluted ⁴ –
The Israel Corporation Ltd. ⁵	53.11	52.71
PotashCorp Agricultural Society Ltd. ⁶	11.36	11.27

³ The rates of holding of capital and voting rights have been calculated on the basis of the issued and paid up capital, less the shares held directly by Israel Chemicals Limited, which are dormant shares.

⁴ Presuming that the options for the Company's shares allotted in accordance with the outline published by the Company on January 29, 2007 (see section 5.2E) are converted into shares, and less the shares held by a company consolidated with ICL.

⁵ The Israel Corporation Ltd. is a public company that is listed for trading on the Tel Aviv Stock Exchange. According to data provided to ICL by the Israel Corporation, as at the report date, Millennium Elad Investments Ltd. (hereinafter: "Millennium") holds approximately 46.94% of the share capital of Israel Corporation Ltd. The shareholders of Millennium are: Mashat (Investments) Ltd. (a company held indirectly by a trust, the principal beneficiary of which is Mr. Idan Ofer) – 80% of the shares of Millennium and 20% of the shares in Millennium are held by the Ofer Investments Group Ltd., a company controlled by Ofer Holdings Group Ltd., which is 50% held by Orona Investments Ltd. and 50% by Linav Holdings Ltd. Mr. Ehud Angel has a special share which grants him, inter alia, subject to certain restrictions and with respect to certain matters, a casting vote on the board of directors of Ofer Holdings. Mr. Idan Ofer and the Ofer Investments Group Ltd. also directly hold approximately 3.85% and 2.93% of the share capital of the Israel Corporation Ltd., respectively. Likewise, Kirby Enterprises Inc., which is indirectly held by a foreign trust the principal beneficiary of which is Mr. Idan Ofer, holds approximately 0.74% of the share capital of the Israel Corporation Ltd.

⁶ As reported to ICL, the said agricultural society is fully held and controlled by Potash Corporation of Saskatchewan.

2.1.5 **Acquisition of material assets**

On August 14, 2007, ICL purchased Supresta – see section 4.2.18 below.

2.1.6 **Changes in the management of the company's business**

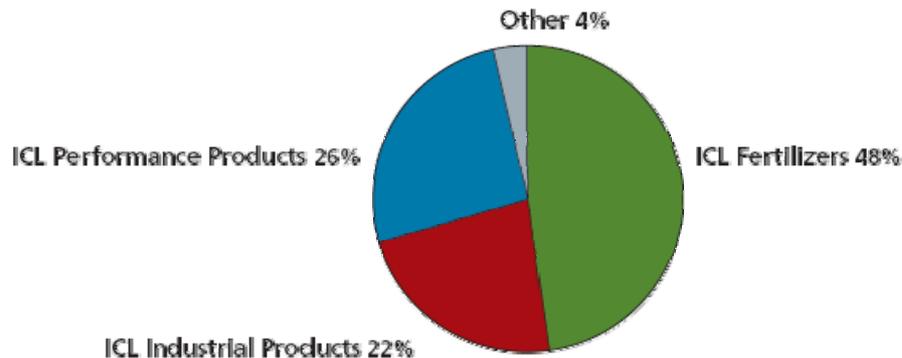
During the period of this report there were no material changes in the manner of management of the Corporation's business.

2.2 **Areas of Operation**

ICL is a multinational company, primarily active in the areas of fertilizer and specialty chemicals, operating in three main business segments – fertilizers, industrial products and performance products. This division is made on a management/functional basis. There is no full correlation between the managerial and the legal structure.

The following is a description of ICL's revenues in 2008, according to segments

Total sales in 2008 - \$ 6.9 billion⁷



The following is a description of the business segments:

- A. **ICL Fertilizers** – ICL Fertilizers produces potash from the Dead Sea and extracts and produces potash and salt from underground mines in Spain and England. ICL Fertilizers refines potash into various grades and sells it worldwide. In addition, the segment uses a portion of its production of potash to manufacture compound fertilizers. In 2008, potash represented approximately 64% of the segment's sales.

In addition, ICL Fertilizers mines and processes phosphate rock from open-pit mines in the Negev Desert, and produces in Israel sulfuric acid, fertilizer-grade phosphoric acid, phosphate fertilizers, compound fertilizers based primarily on potash and phosphate and specialty fertilizers. ICL Fertilizers also produces fertilizers in the Netherlands, Germany and Belgium. In addition, ICL Fertilizers produces phosphate-based animal feed supplements in Turkey and in Israel.

ICL Fertilizers markets its products worldwide, primarily in Europe, Brazil, India, China, and Israel.

ICL Fertilizers operations also include the operations of Mifalei Tovala Ltd., which transports cargos mainly for the companies of ICL Israel, are included as part of ICL Fertilizers, since most of its operations are the bulk transportation of ICL Fertilizers.

⁷ For the purpose of this graph, the revenue data for the segments used for calculating the proportion of total revenue are after set-off of revenue from intra-segment sales.

- B. **ICL Industrial Products** – ICL Industrial Products produces elemental bromine from an end-brine that is created as a by-product of the production process of potash in Sodom and produces bromine-based compounds. In 2008, ICL Industrial Products was the world's leading producer of elemental bromine (see section 4.2.7(a)). In that year, ICL Industrial Products produced about 30% of the world's production of this product. During 2008, ICL Industrial Products used approximately 70% of the bromine it produced for its own production of bromine compounds in its production facilities in Israel, the Netherlands and China.

Additionally, ICL Industrial Products produces flame retardants and other phosphorus-based products at production sites in the USA and Germany, and produces various salt products, magnesia and chlorine (produced together with caustic soda by electrolysis of salt which is created as a by-product of potash production, and which serves as a raw material in the segment's production processes) in Israel.

ICL Industrial Products also manufactures chlorine-based industrial products in Israel and the United States.

ICL Industrial Products markets its products worldwide.

- C. **ICL Performance Products** – ICL Performance Products purifies some of the fertilizer-grade phosphoric acid produced by ICL Fertilizers, purchases pure phosphoric acid from other sources, and also produces thermal phosphoric acid and uses the pure phosphoric acid to produce downstream products with high added value – phosphate salts, which are also a raw material in the production of food additives, the production of hygiene products, the production of phosphorus derivatives and the production of products for preventing the spreading of fires and for extinguishing them. ICL Performance Products also produces specialty products based on aluminum oxide (hereinafter: "alumina") and other raw materials. ICL Performance Products' production takes place at production facilities in Europe and specifically in Germany, the United States and Brazil, as well as in Israel, China and other countries. The products based on specialty phosphates represented approximately 80% of ICL Performance Products' sales in 2007. In January 2008, ICL Performance Products expanded the field of water treatment by acquiring most of the assets and operations of the water treatment business unit of the German Henkel Group.

In addition to the business units described above, ICL has other operations that include water desalination (via a company that is 50% owned by ICL - IDE Desalination Engineering Ltd.) and magnesium manufacture at DSM, a joint venture between ICL and the Germany company Volkswagen.

For further details about these other operations see section 4.4 below.

2.3 Capital Investment in the Corporation and Transactions in its Shares

During the course of 2007 and 2008, the following changes occurred in the share capital of the Corporation:

- A. As part of the remunerations plan for senior officers in 2007, 11,800,000 options of the Company were issued for no consideration. In this regard, see section 5.2(e) below.

In 2008, 16,666 options were exercised for 16,666 shares.

- B. To the best of ICL's knowledge and according to reports it received from its shareholders, during 2007 and 2008, no material transactions were executed in ICL's shares except as described below.

Potash Corporation of Saskatchewan, an interested party in ICL, reported to ICL that in 2008, it acquired 14,288,705 ordinary shares of ICL in an off-the-floor transaction, amounting to approximately 1.13% of the issued share capital of the Company, in accordance with the following details:

Date	Number of Shares	Share Price (NIS)	Total Consideration (NIS millions)
23.10.2008	14,288,705	31.27	446.8

On March 30th, 2009, all the shares of Potash corporation of Saskatchewan were transferred to PotashCorp Agricultural Society Ltd., which, as reported to ICL, is fully held and controlled by Potash Corporation of Saskatchewan.

- C. Share buy-back – as part of a share buy-back scheme, between September 2008 and December 31, 2008, ICL purchased 21,543,885 ordinary shares of ICL, constituting approximately 1.67% of the capital of ICL (between September 2008 and the date of publication of this report, ICL has purchased 22,368,342 ordinary shares, constituting approximately 1.74% of the capital of ICL). The shares purchased are “dormant shares”, as that term is defined in section 308 of the Companies Law (for further details, see section 14.7 of the Board of Directors’ report).

2.4 **Dividend Distribution**

2.4.1 **Details regarding the distribution of dividends in the preceding two years⁸:**

- A. On April 25, 2007, ICL distributed a cash dividend in the amount of \$283.9 million.
- B. On June 18, 2007, ICL distributed a cash dividend in the amount of \$66.8 million.
- C. On September 18, 2007, ICL distributed a cash dividend in the amount of \$88.1 million.
- D. On December 17, 2007, ICL distributed a cash dividend in the amount of \$104.8 million.
- E. On March 27, 2008, the board of directors of ICL decided to distribute a cash dividend in the amount of \$115 million.
- F. On May 26, 2008, the board of directors of ICL decided to distribute a cash dividend in the amount of \$173 million.
- G. On August 19, 2008, the board of directors of ICL decided to distribute a cash dividend in the amount of \$300 million.
- H. On November 24, 2008, the board of directors of ICL decided to distribute a cash dividend in the amount of \$380 million.
- I. On March 29, 2009, the board of directors of ICL decided to distribute a cash dividend in the amount of \$175 million, which will be paid on May 4th, 2009..

All of the dividends distributions noted above were made from profits and did not require court approval. The amounts are after deduction of the share of a consolidated company.. See also Note 25D to the financial statements for 2008.

For details regarding covenants to banks for preservation of share capital, see section 5.3.4 below.

⁸ All of the sums in section 2.4.1, less the portion held by a consolidated company, are: 283.4, 66.7, 87.9, 104.6, 114.8, 172.7, 299.5, 379.3 and 174.7million dollars respectively. See also Note 25D to the financial statements.

2.4.2 Dividend distribution policy

On March 27, 2007, the board of directors of the Company decided that the Company would pay a quarterly dividend at a rate of up to 70% of the Company's net profit. The sum of the dividend that would actually be paid would depend, inter alia, on the Company's profits, the Company's investment plan, financial status and additional factors.

The following is a table of the dividend yields in recent years:

Year	Dividend Yield (%)⁹
2001	4.0
2002	4.8
2003	4.5
2004	4.5
2005	3.6
2006	6.4
2007	3.5
2008	5.9

⁹ Dividend yield – the total dividend per share in NIS distributed from the relevant year's profits, divided by the average price per share on the TASE during that year.

Chapter 3 – Other Information

3.1 Financial Information Regarding the Corporation's Areas of Operations

A. The following table represents the Group's revenues by business segment:

	2008 – in US \$ 000's								
	ICL Fertilizers				ICL Industrial Products	ICL Performance Products	Other	Setoffs	Consolidated
	Potash	Phosphate	Setoffs	Total					
1. Revenue									
A. Revenue from external sources	2,428,799	1,485,246	-	3,914,045	1,246,000	1,479,973	264,031	-	6,904,049
B. Revenue from sales to other segments	271,214	195,698	(129,238)	337,674	8,164	63,506	62,547	(471,891)	-
C. Total	2,700,013	1,680,944	(129,238)	4,251,719	1,254,164	1,543,479	326,578	(471,891)	6,904,049
2. Costs									
A. Expenses that represent revenue by another segment of the Company	47,218	64,204	-	111,422	112,949	166,421	81,188	(471,980)	-
B. Other costs	1,079,278	1,145,789	(103,330)	2,121,737	1,036,294	1,122,890	275,907	89	4,568,560
C. Total	1,126,496	1,209,993	(103,330)	2,233,159	1,149,243	1,289,311	357,095	(471,891)	4,568,560
3. Operating profit	1,573,517	470,951	(25,908)	2,018,560	104,921	254,168	(48,517)	-	2,335,489
4. Total assets as at December 31, 2008	1,787,733	986,051	(112,271)	2,661,513	1,454,227	1,004,260	189,176	(57,081)	5,737,742
5. Minority interest in revenue from external sources		10,087		10,087	11,527	8,205	48,284		

* Including costs not allocated to the segments.

	2007 – in US \$ 000's								
	ICL Fertilizers				ICL Industrial Products	ICL Performance Products	Other	Setoffs	Consolidated
	Potash	Phosphate	Setoffs	Total					
1. Revenue									
A. Revenue from external sources	1,228,259	731,689	-	1,959,948	919,263	1,078,300	145,668	-	4,103,179
B. Revenue from sales to other segments	158,183	81,565	(51,033)	188,715	6,368	23,763	21,619	(240,465)	-
C. Total	1,386,442	813,254	(51,033)	2,148,663	925,631	1,102,063	167,287	(240,465)	4,103,179
2. Costs									
A. Expenses that represent revenue by another segment of the Company	19,298	24,594	-	43,892	64,029	60,902	69,504	(238,327)	-
B. Other costs	961,516	665,697	(49,856)	1,577,353	715,407	950,082	114,764	(2,138)	3,360,593
C. Total	980,814	690,291	(49,856)	1,621,245	779,436	1,010,984	184,268	(240,465)	3,360,593
3. Operating profit	405,628	122,963	(1,177)	527,414	142,195	91,079	(16,981)	-	742,586
4. Total assets as at December 31, 2007	1,482,751	836,487	(52,796)	2,266,442	1,353,012	821,859	206,860	(98,919)	4,749,305
5. Minority interest in revenue from external sources		3,718		3,718	7,782	5,488	31,299		

* Including costs not allocated to the segments.

B. Explanation of changes and developments

For explanations of the changes and developments in the financial data, see sections 2 and 3 of the Directors' Report.

3.2 General Business Environment and Influence of External Factors on ICL

3.2.1 ICL is a multinational company. Its financial results are affected by the demand for basic agricultural products, global economic trends, the changes in terms of trade and financing, and fluctuations of currency exchange rates.

ICL is taking steps towards adapting its marketing and production policies to the global market conditions. ICL is focusing on improving cash flow, diversifying sources of financing and is committed to taking actions to improve efficiency and cost savings.

3.2.2 The Company has facilities that are located in Israel. As an Israeli corporation, the Company is affected by political, economic and security conditions prevalent in Israel. A number of countries, and various corporations and organizations still restrict their business relationships with Israeli companies although, as a result of the geopolitical situation in Israel, their number declined. This trend should improve ICL's ability to expand its business relationships with these countries and corporations and sell its products in these countries. A worsening geopolitical situation could harm business relationships with these countries and corporations.

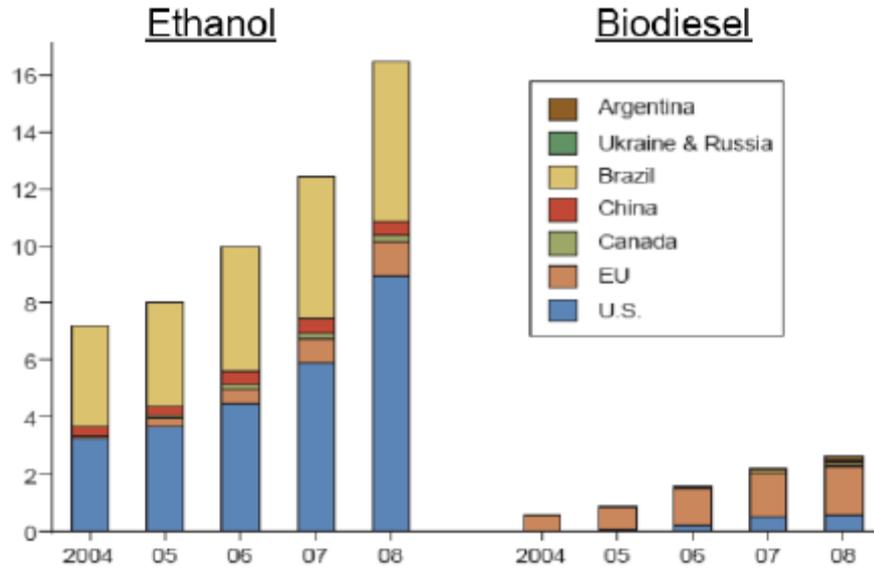
3.2.3 Most of ICL's debt bears variable interest rates. Therefore, the Company's cash flow is exposed to risks due to fluctuations in interest rates. The Company partially hedges against such exposure by using financial hedging instruments including financial derivatives. For the amount of such hedging activities in 2008, see Note 28 to the financial statements for 2008.

3.2.4 Conditions in the global agricultural market, which significantly affect the demand for fertilizer, have improved. In recent years there has been a long-term trend of growth in the worldwide consumption of cereals (grains, rice, soy, corn etc.). The growth derives from the natural worldwide population growth, as well as a change in food consumption composition (a transition to richer food based more on animal protein which increases grain consumption) as the result of increases in the standard of living primarily in the developing countries. In addition, environmental considerations and the objective of Western nations to reduce dependency on fuel importation support the trend of transition towards producing fuels from agricultural sources (bio-fuels). These trends have led, in recent years, to an increase in the prices of agricultural products, increased cereal planting worldwide and a trend of increased yield per unit of agricultural land, mainly by increased fertilizing, as a result of which there has been a sharp increase in fertilizer prices. For a graphic description of the development of consumption in the past, and a forecast for the future, see below¹⁰:

¹⁰

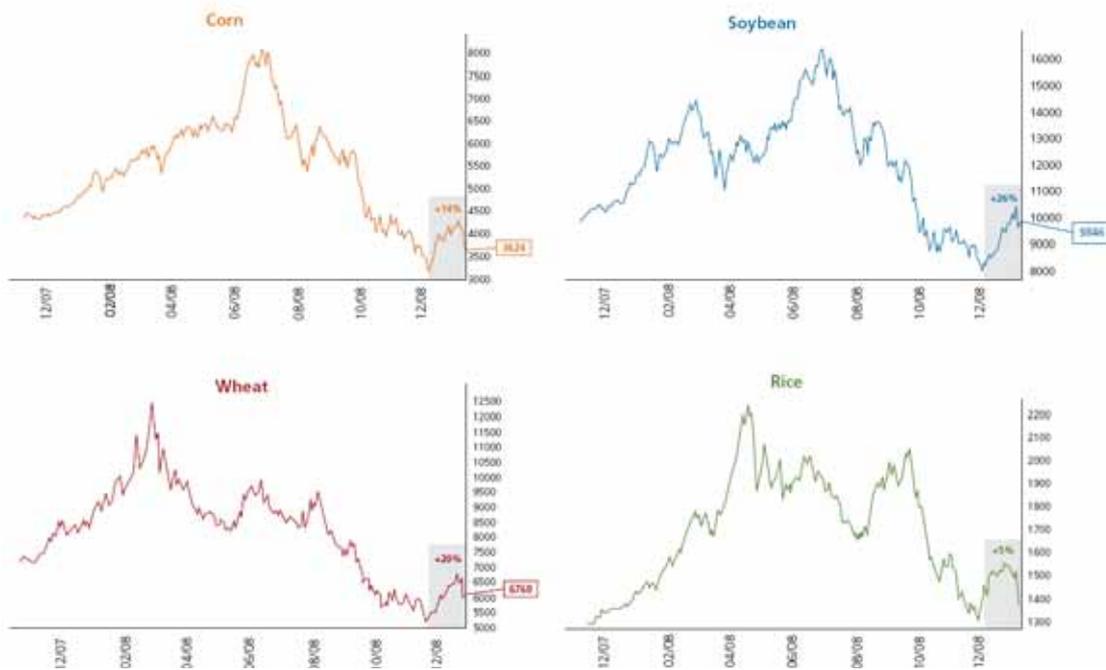
The contents of this paragraph include forward-looking information. The forecasts are based on data from research institutes and the Company is not liable for these. The forecasts might not occur, in whole or in part, or might occur on a different timetable from that estimated, due to a series of factors, including changes in weather or mini-climate, economic, political or regional changes and discussions currently taking place in the European Union on the Encouragement of Biofuels Directive.

World Production of Ethanol and Biodiesel



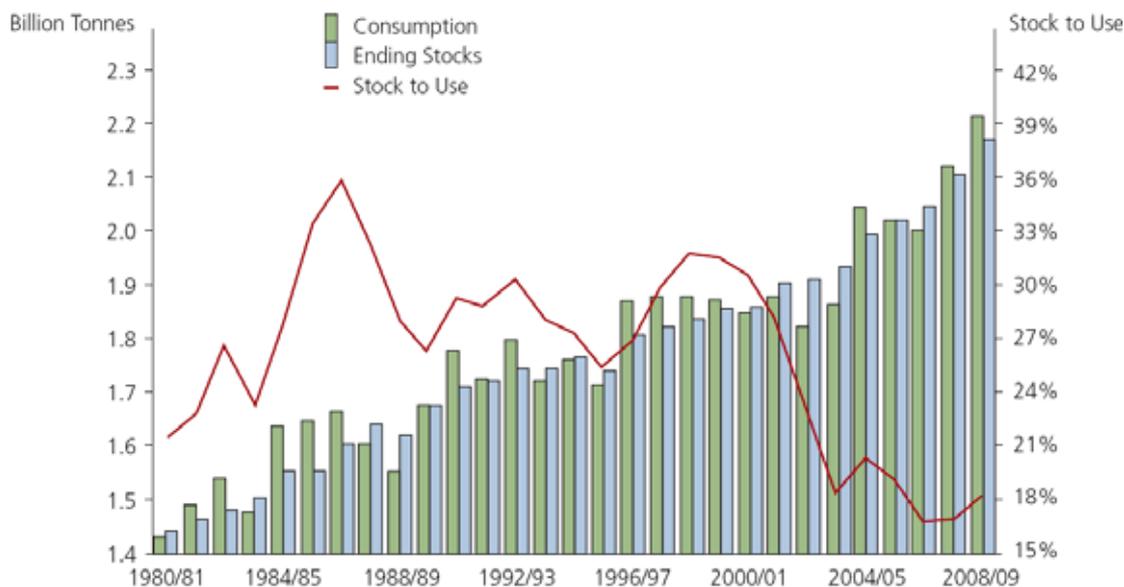
Source: R. Troste USDA September, 2008

Prices of principal grains



Source: CBOT, January 2009

Worldwide Grain Production and Consumption – Wheat and Other Cereals (billions of tons)



Source: USDA – www.fas.usda.gov – December 21, 2008

3.2.5 In December 2008, the USDA forecast a slight increase in wheat, corn and soy inventories due to suitable weather conditions in principal cultivation areas around the world, however, it is important to note that the levels of inventory, which constitute approximately 19% of annual consumption, are still considered low historically, and it will take a number of consecutive years of good harvests in order to bring the inventory levels to a situation that will ensure world food supplies at a low rate of risk. In order to get years of good agricultural yield, agriculturalists will need to use large, balanced quantities of fertilizers over time.

The global credit crisis that broke towards the end of 2008 is causing an global economic recession, a drop in the prices of merchandise and a credit crunch that is influencing the ability to obtain credit for current operations.

This credit crisis is also affecting the prices of agricultural outputs and the demand and prices for fertilizers. The general atmosphere in financial markets has given rise, in recent months, to sharp drops in the prices of grains from peak prices due also to a fear of price collapse, and due to credit distress. The economic recession, the financial crisis and the global credit crunch, as well as the drop in grain prices, is putting pressure on the demand for fertilizers, which has been expressed in a sharp drop in demand as of the second half of September 2008. The declining trend in demand continued during the fourth quarter of 2008 and through to the date of approval of this report, and is likely to continue in the coming months as well. This expected drop in demand stems, *inter alia*, from the fact that the last quarter and the first quarter of the year are quarters in which the demand for fertilizers is less than in the two other quarters, and from the fact that during the period in which fertilizer prices increased, distributors accumulated relatively large stocks which are reducing the demand by these distributors, until their inventory levels return to ordinary levels.

The negative trend that characterized the fertilizer market in the fourth quarter of 2008 continued into the first quarter of 2009 and in fact worsened.

In the potash market, the level of sales of ICL Fertilizers in the beginning of 2009 was lower than in the fourth quarter of 2008 and concentrated mainly in the Indian market, where the annual supply agreement of ICL Fertilizers ends in April. The annual

agreement to supply potash to China for 2009 has not yet been signed. As a result of the drop in demand, most producers gave notice of partial or full cutbacks of production in order for supply to match demand. Potash prices are still maintaining relative stability. In March, BPC gave notice of a new target price in Brazil of USD 750 per ton of potash (CIF price for granular potash to large customers). In other markets including Brazil, there has been some activity of late, but it is still difficult to forecast its effect on the second quarter business.

In the phosphate fertilizer market, the level of sales at the beginning of 2009 was lower than the sales in the fourth quarter of 2008, with most sales being phosphoric acid to India. In addition to the drop in quantities there was also a drop in the prices of phosphate fertilizers which was partially set off by decreases in the prices of principal inputs – sulfur, energy and marine transportation prices, as well as the positive effect of the depreciation of the shekel against the dollar.

Towards the end of the first quarter of 2009, there was a somewhat positive change in the market in the field of phosphate fertilizers with India, Brazil and other markets starting to be active. At this stage it is difficult to forecast the effects of this activity on the results of the second quarter of 2009.

In the Company's assessment, despite the current crisis, the fundamental drivers of demand for the demand for fertilizers in the long term have not changed substantially. The increase in demand for grains, alongside the low (in historic terms) level in world grain inventories are expected, in the long term, to generate pressure to increase the demand for fertilizers. The drop in demand in the short term, as noted above, might make the situation of grain inventory around the world even worse, which is likely to give rise to increases in grain and fertilizer prices later on¹¹.

- 3.2.6 In recent years, a number of potash producers have announced projected expansions of their manufacturing capacities in the coming years. Likewise, a Saudi company has given notice of construction of the M'aaden project in Saudi Arabia, which is based on a new phosphate mine and sulfuric acid and phosphoric acid production facilities expected to produce approximately 3 million tons of DAP. This project is expected to be completed at the beginning of the coming decade. At this stage, it is difficult to estimate the effect that the project will have on the supply and demand balance for DAP internationally.

As a result of the economic and financial crisis during the second half of 2008 and thereafter, a number of producers in the fields of potash and phosphate have given notice of a deferral of investments in projects to increase the production capacity. The Russian company Uralkali gave notice, at the end of 2008, of deferral of its plan to construct mine no. 5, one of the new mines that it had planned on constructing. In South America, mining giant Rio Tinto cancelled its intention to enter into the field of potash production and sold its concessions to the Brazilian company Vale]. The American company Mosaic gave notice in January 2009 of its continued commitment to potash expansions however, it is considering slowing down the rate of such expansions for cash flow reasons. In the Company's assessment, the expected increase in supply by existing producers in the coming years is not greater than the expected increase in demand for potash, based on assessments regarding the average long-term increase in demand for potash¹².

¹¹ Estimates regarding future trends in this paragraph are forward-looking information and there is no certainty as to whether, when and at what rate they might come about. They might change due to fluctuations in world markets and in local markets, particularly in sites where ICL manufactures and on the target markets for ICL's products, including, *inter alia*, changes in the levels of demand and supply, in prices of products, merchandise and grains, in input prices, costs of transportation and energy, and they might be affected by actions taken by governments, manufacturers and consumers. They might also be affected by the state of the financial markets, including fluctuations in exchange rates, the state of credit, and interest costs.

¹² Estimates regarding future trends in this paragraph are forward-looking information and there is no certainty as to whether, when and at what rate they might come about. They might change due to fluctuations in world markets and in local markets, particularly in sites where ICL manufactures and on the target markets for ICL's products, including, *inter alia*, changes in the levels of demand and supply, in prices of products, merchandise and grains,

Many potash and phosphate fertilizer producers have reduced their production rates and some have stopped production for various periods. Thus, for instance, at the beginning of 2009, the largest potash producer in the world, PCS, has given notice of a reduction of production in the first half of 2009 by two million tons, and March, 2009, went on to announce an additional reduction of 1.5 million tons (3.5 million tons in total). The largest DAP producer in the world, Mosaic, reduced production of these fertilizers by one million tons at the end of 2008, and is planning on reducing manufacture by another one million tons in 2009. The Moroccan producer, OCP, ceased production at its facilities at Jorf Laspar (Morocco) in mid November and only began running the facilities again in mid February 2009. Further potash and phosphate fertilizer production stoppages were recorded in Tunisia, Jordan, Russia, North America and Europe.

- 3.2.7 ICL Industrial Products' markets are affected to a large degree by the activity in the electronics, construction, vehicle, oil drilling and water treatment product industries. 2008 was characterized by relatively high sales of flame retardants during the first nine months of the year, and by a sharp decline in the fourth quarter as a result of the global financial crisis and the serious harm to end markets for flame retardants which are mainly the electronics, construction and vehicle industries. The demands in the chemicals market for oil drilling continued to be high and brought about an increase in sales quantities compared with 2007, whilst retaining the high level of prices. On the supply side, supply of chemicals for oil drilling originating in China dropped this year compared with the previous year as a result of an increase in production expenses, a reduction in export incentives and a drop in the availability of bromine in China. In the field of chlorine-based biocides, ICL Industrial Products continued to penetrate new customers who are closer to the end user. The market for swimming pool chemicals was not harmed in 2008 by the effects of the economic crisis. The methyl bromide market continued its downturn in sales due to restrictions in the Montreal Protocol.
- 3.2.8 The financial crisis that hit global markets towards the end of the period, the sharp drop in oil prices and in credit availability began adversely affecting demands for some of the products manufactured by ICL Industrial Products during the last quarter of the year. The sales of ICL Industrial Products sales in the first quarter of 2009 are expected to be being lower than in the last quarter of 2008, as a result of a reduction in quantities sold and a slight decline in the selling prices of its the segment's products. ICL Industrial Products adjusted production in its various plants to the level of sales, and halted production in several plants in Israel and abroad. At this stage, the Company is unable to assess, the duration of the period in which such effects will be felt on ICL Industrial Products. Conversely, ICL Industrial Products is enjoying the decrease in the prices of some of its raw materials, the decrease in energy costs and the depreciation of the shekel against the dollar.
- 3.2.9 The financial crisis affecting the global markets and the decrease in the prices of raw materials in general and in particular phosphoric acid, as well as the reduction of customer inventories, are causing a slowdown in demand for some of the products manufactured by the ICL Performance Products as well as downward pressure on prices.

ICL Performance Products expects that its sales in the first quarter of 2009 will be lower than the sales in the last quarter of 2008 as a result of the decrease in sales volume and a slight decrease in the sales prices of the segment's products. At this stage the segment cannot forecast, apart from the factors mentioned above, the expected impact of the events described and the duration of the period during which these events will impact the markets in which the segment is active..

in input prices, costs of transportation and energy, and they might be affected by actions taken by governments, manufacturers and consumers. They might also be affected by the state of the financial markets, including fluctuations in exchange rates, the state of credit, and interest costs.

3.2.10 In the magnesium market, the upward price trend which began in 2006-2007, continued on into 2008 as well. The price increase stemmed from a number of main factors including an increase in the prices of Chinese magnesium as a result of the continued cancellation of incentives on the export of magnesium and the imposition of export duties, increases in the prices of principal inputs in production of magnesium and closure of magnesium production facilities during the period of the Olympic Games which took place in China. And from a reduction in the supply of other manufacturers as a result of closure of a Canadian manufacturer's magnesium production plant in the second half of 2007, and problems with magnesium supplies from Russia. These factors positively affected the Company's results but on the other hand, the sharp increase in prices of energy and other inputs set off the positive effect of the price increase.

The global credit crisis which broke out at the end of the year is adversely affecting the magnesium market, both as a result of the considerable downturn in the vehicle market and as a result of the drop in demand in the steel and aluminum industries. As at the date of publication of this report, the Magnesium Company has agreements or arrangements for the sale of magnesium for 2009 at relatively high prices however, in light of the situation described above, there is no certainty that these agreements will be realized. On the other hand, a drop in energy prices and the arrival of natural gas to Sdom, which as of the date of approval of this report, is expected during the second half of 2009 are expected to reduce the Company's production costs.¹³

In light of the development in the magnesium market towards the end of 2008, and the forecasts for the future, the Magnesium Company came to the conclusion that it must review the need for impairment of its assets. This examination was effected with the assistance of external advisors. The results of the examination showed that it was necessary to reduce its plant and equipment balance on its books by the sum of \$ 47.4 million.

3.2.11 ICL's energy costs are affected mainly by prices of oil and its products in Israel and worldwide, and by the prices of electricity in Israel and around the world and the prices of natural gas and fuel oil in countries in which the Company's principal production facilities are located. In 2008, there was an additional increase in oil and electricity prices, following price increases in 2004-2007, though this trend turned around as of the beginning of the fourth quarter of 2008.

In March 2008, ICL signed an agreement to purchase natural gas for the Company's facilities in Israel which will effect a considerable reduction in energy costs to the Company, and will improve compliance with environmental quality standards. The laying of the gas pipeline to Sdom by the Government company NGL is expected to be completed during the course of the first half of 2009. At the same time, a project to convert facilities to use of natural gas is currently being effected at the Company's facilities in the South of the country. In light of the above, the Company expects to begin using gas in its production facilities at Sdom, at which most of ICL's gas consumption is expected, during the second half of 2009¹⁴.

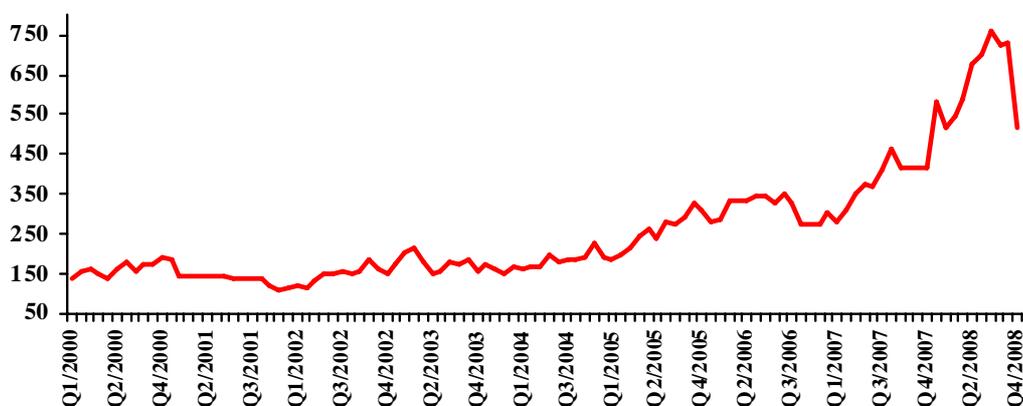
In February 2009, the operator of the "Tamar"1 drilling, which is located in the Mediterranean Sea, within the economic waters of Israel, off Acre, announced that the drilling's findings show a commercial discovery of gas in significant quantities. The entities that are party to the Tamar concession have given notice that they intend to effect additional drillings in the area of the Tamar concession and in the areas of

¹³ The information given in this paragraph is forward looking information. It may not be realized as explained in the footnotes to the following paragraphs and in footnote 14 below.

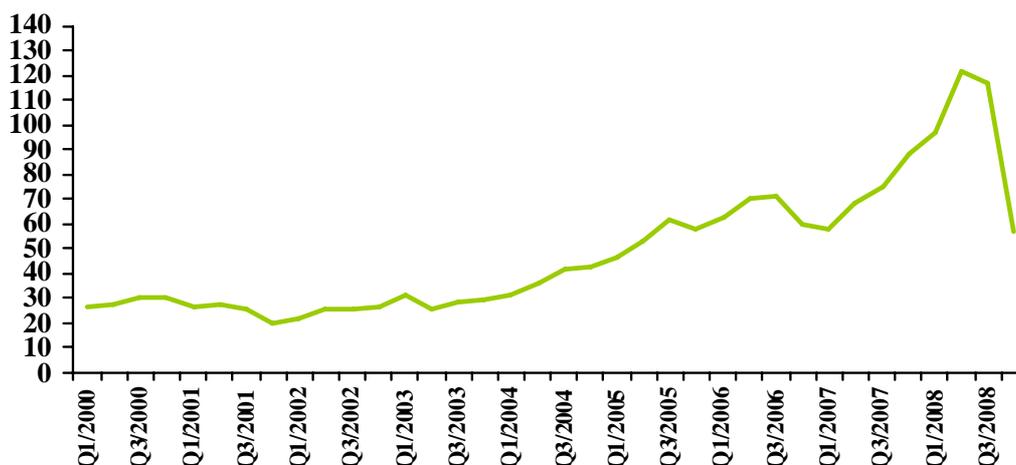
¹⁴ The information contained in this paragraph regarding the date of completion of the laying of the gas pipeline and the date of completion of conversion of the facilities is forward-looking information and is based on information given to the Company by NGL, and on the Company's own assessments regarding the date of completion of the conversion project. The eventuation of these assessments is uncertain and depends on factors that are not all within the control of the Company.

adjacent concessions. In the Company's assessment, the discovery of gas will improve availability and competitiveness in the gas market¹⁵.

Mazut 1500 (\$/ton, Ashdod gate)



Brent Oil Price Per Barrel (\$/barrel)



Source: Reuters, March 2009

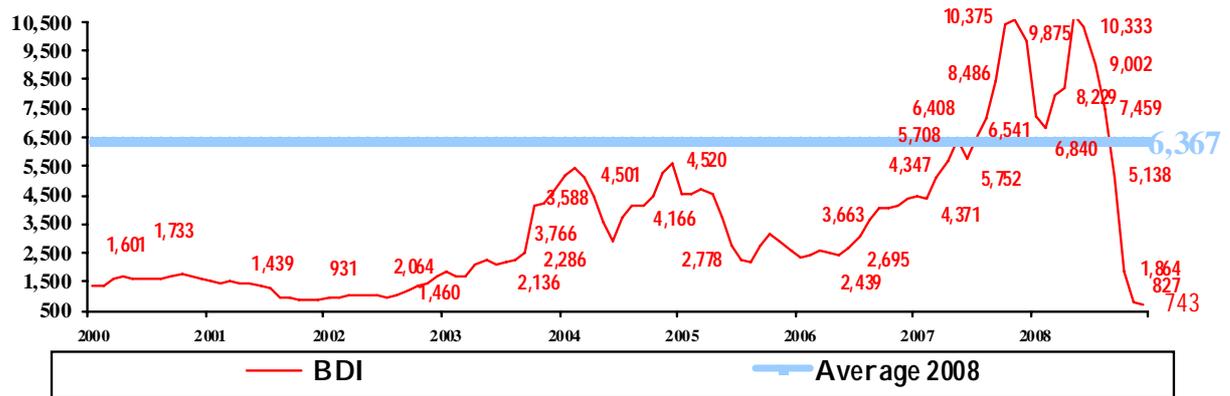
3.2.12 Marine bulk shipping costs represent a significant component of expenses of ICL Fertilizers. However, since the costs of sea transportation of fertilizers are mostly part of the price to the customer, shipping cost increases usually affect the percentage profit rather than the profit itself. During the first half of 2008, the sharp increase in shipping prices continued, reaching an all-time high. As of the third quarter, marine shipping costs dropped sharply as a result of the world financial crisis. The closest measurement

¹⁵ The information set out in this paragraph is forward-looking information. It is based on reports made to the public by the partners in the Tamar 1 drilling, without any independent corroboration. Verification of the reserves requires verification and/or exploratory drillings and an evaluation of the proven reserves in the Tamar concession which have not yet been effected and there is no way of knowing for certain what the results thereof might be. Production of the gas from an off-shore drilling, and connection of it to a gas transmission system, require resources and will take a considerable number of months. ICL has not entered into an agreement to purchase gas from this drilling in whole or in part. It is not possible to know if and when the gas that was discovered will be available for consumption at ICL's plants.

showing bulk shipping prices from Israel, representing the international average of transportation of dry bulk, is the BDI – Baltic Dry Index, published by an organization called the Baltic Exchange. This index measures the international average of dry bulk transportation prices compared with the base year. In the middle of 2008, this index reached approximately 11,000 points, and since then, has been in a sharp decline, closing at the end of the year at 784 points compared with 9,143 points at the end of 2007. Since the beginning of 2009, the index has been increasing, and amounted, at the end of February 2009 to 1895 points.

The Baltic Dry Index

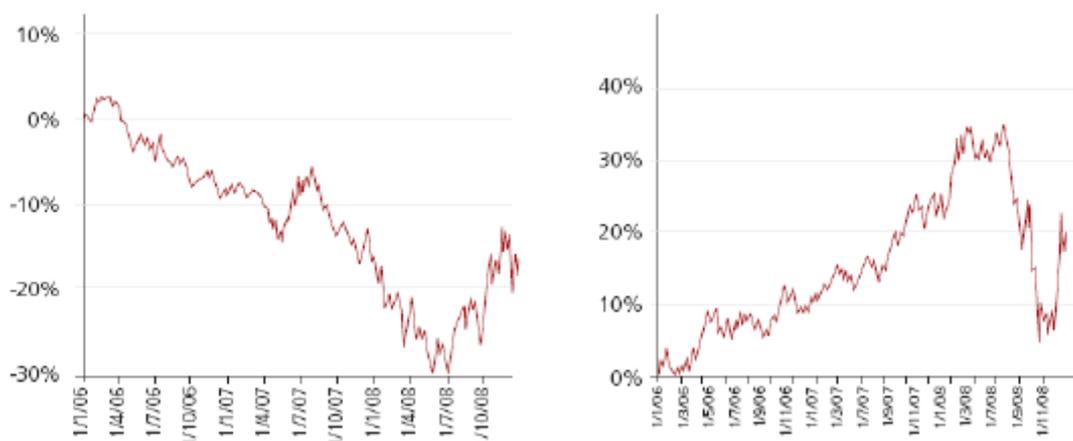
The chart below shows the development of the index in recent years from 2000 until the end of 2008.



* Source: BTMI daily report, Brokers Market & Trend Information

3.2.13 The lion's share of ICL's sales are in foreign currency, mainly US dollars and Euro. A portion of its operating expenses in Israel 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 and revaluation has the opposite effect. The strengthening of the Shekel as against the Dollar adversely affected ICL's operating profit in 2008, compared with the previous year, by an estimated sum of approximately \$ 76 million. ICL has more revenues than expenses in Euro. Therefore, an appreciation of the exchange rate of the Euro relative to the US dollar has a positive impact on ICL's profitability, with depreciation having the opposite effect. ICL hedges against some of these exposures. On the other hand, contrary to the positive effect of the appreciation of the Euro as set out above, when the Euro appreciates against the Dollar, the competitiveness of the subsidiaries of ICL, whose operating currencies are the Euro, suffers in comparison with that of competitors whose currency of operation is the Dollar.

The following are developments in exchange rate of the NIS and the Euro compared with the Dollar:



Source: Bank of Israel Publications

3.3 **Sustainable Development Policy – Environmental and Safety Responsibility and Compliance with the Law**

ICL implements a policy that includes sustainable development which combines social, economic and environmental considerations in all of its commercial operations.

Sustainable development considerations are a key component in the plans of the ICL Group. As part of this policy, ICL strives to take into account the welfare of its employees, its customers, its shareholders and its suppliers, as well as the communities in which the Company's operates, whilst taking into account the environment and future generations.

ICL's commitment to sustainable development and social responsibility is expressed in an adoption of the principles of corporate social responsibility (CSR), as well as the principles of Responsible Care under the Responsible Care Global Charter of the world chemical industry¹⁶.

The CSR principles represent a policy of social responsibility, including a contribution to society, taking responsibility for the safety, hygiene and welfare of employees and visitors onto the Company's sites; reducing environmental impacts; preparations for cases of emergency; generating transparent dialog and communications with authorities, communities and other stakeholders; responsible management of products throughout their life cycles; marketing and consumer issues, administrative ethics, corporate governance, transparency and accountability.

On the basis of these principles, ICL has formulated the following principles for its sustainable development policy:

- Management of the manufacture, distribution, use, treatment and disposal of the products in a safe and environmentally responsible manner;
- Efficient and effective use of resources whilst minimizing waste and effluent where possible;

¹⁶ See details in section 3.3.1 below.

- Maintenance of safety of production and products;
- Adoption of systems for the identification, appraisal and management of risks throughout the life of products.
- Ensuring appropriate conditions of safety and hygiene;
- Striving for continuous improvement whilst complying with the provisions of the law and beyond compliance, and in cases where there is no legislation, in compliance with standards and accepted and leading practices in the industry around the world;
- Development and improvement of products, the production, distribution, use, treatment and disposal of which shall be safe and environmentally friendly;
- Establishing procedures and systems for handling emergency conditions both in and out of facilities;
- Encouragement of customers, transporters and suppliers to pay attention to environmental issues whilst creating cooperation plans such as Responsible Care, VECAP, etc.;
- Cooperation with persons in research and industry, of implementation of innovations and developments, and the promotion of safety in the production of products with the aim of making them environmentally friendly;
- Instilling sustainable development principles among employees, whilst training and involving them in sustainable activities and exposing them to these values;
- Encouragement of communal support plans, and of communal and environmental involvement; Cooperation with authorities and the community in educational programs and nature and environmental conservation programs;
- Creating an ongoing dialogue with the authorities and interested stakeholders, including environmental organizations and residents, so as to understand their positions and concerns, with the aim of achieving maximum transparency in the fields of social and environmental responsibility;
- Adoption of international standards including ISO in the fields of environmental management and safety;
- Having standards bodies effect internal compliance checks as well as in the context of internal compliance plans.

The board of directors of ICL and its segment as well as the management of ICL follow closely after the exercise of this policy. For this purpose, Board of Directors committees have been set up in the segments in Israel, with a mandate to follow up, audit and discuss issues in all fields relating to ecology, safety and hygiene, and security. The committees are aided by outside consultants in the relevant fields of expertise. Management of ICL also enforces compliance and control plans intended to ensure that all of the obligations of the companies in the Group are lawfully performed.

The board of directors of ICL has appointed the deputy CEO and COO of ICL, Mr. Asher Greenbaum, who is also the Group's risk manager, as commissioner for environment, safety, industrial health and security at the Company. Mr. Greenbaum reports to the CEO of ICL and reports on his behalf, from time to time, to the board of directors of ICL regarding activities in these fields.

ICL provides the administrative and financial resources required for implementation of the sustainable development policy.

In 2008, ICL spent a sum of around \$100 million on issues related to the environment and environmental conservation. Out of this sum, ICL invested approximately \$53 million in plant and equipment for the prevention of environmental hazards, and approximately \$47 million as a current expense in this area.

In 2009, ICL expects to spend a sum of approximately \$120 million in these areas, of which around \$76 million will be in an investment in plant and equipment and \$44 million will be as a current expense for the same purposes. It is also expected that beyond 2009 there will not be a drop in the amount of costs required¹⁷.

3.3.1 Responsible Care

ICL has adopted the Responsible Care policy, the international chemical industry's flagship program for chemical management. The program is run by the ICCA – the International Council for Chemicals Associations, in which associations from 53 countries around the world are members, including the Israeli Manufacturers Association.

The Responsible Care Program strives for continuous improvement in the chemicals industry, for compliance with the provisions of the law and standards, and beyond that, to promote volunteer initiatives to realize these principles together with government, public officials and other interested parties in order to promote the program and other activities to construct security and public trust in the chemicals industry.

In this context, ICL joined the Responsible Care Global Charter, which is a document of principles for the activities of the global chemicals industry in recent years. These principles include: Product Stewardship – risk management along the supply chain, increased transparency along the supply chain, contribution to sustainable development, increased dialog with interested parties, instilling an administrative system and external controls.

3.3.2 Regulation and Licensing

ICL's policy is to comply with all provisions of the law, statutes, instructions, regulations, treaties and standards that are valid and to strive, as far as possible and appropriate, to achieve standards that are beyond compliance.

As a company that operates in the field of chemicals, ICL is required to comply with a series of rules that apply to the entire life cycle of the product, both in the countries in which they are manufactured, and in the countries in which they are sold, including laws to protect employees and the public, regulations regarding production, classification and labeling prior to transportation, packaging regulations, classification prior to supply (MSDS, labels), registration of existing chemicals and chemicals under development in the relevant countries, specific instructions and rules regarding special uses of the substances that ICL manufactures, (such as food or cosmetics), environmental protection laws relating to manufacture or use of the product and its environmental impact (air, water, land), and laws regarding the recycling of products at the end of their lives (electronic and electrical equipment, plastics, etc.).

Regulatory requirements change over time and usually become stricter. The Company uses the best and most economically viable technologies in order to comply with these requirements. The Company's compliance with the requirements of the authorities takes time depending on the nature of the investment required.

¹⁷ Assessments regarding the projected costs and expenses constitute forward-looking statements, and are based on legislation and regulation currently in effect, on governmental requirements known at present and on investment estimates made by Company engineers. The realization of these estimates cannot be certain. Any change in these estimates, including changes in the estimates made by the Company's engineers or changes in adoption of governmental requirements or legal rulings may cause different results than those stated above.

3.3.3 Security

The security policy at ICL companies is based on implementation of Israeli and international guidelines, statutes and regulations, and, as far as possible, beyond the requirements of the guidelines of authorities as well.

Security operations are effected in full cooperation with local security authorities (including the police force and the army), in the Company's areas of operation.

In 2008, ICL began expanding its security system at its factories in Israel.

3.3.4 Purposes and goals in the field of environmental protection, safety and hygiene, and examples of implementation

ICL's policy in these areas is to promote:

- **Compliance with required standards**, whilst striving to use the best existing technological and economic measures (BAT)¹⁸, and where technologically and economically possible, to go beyond compliance. The directive of the board of directors and management to the companies is that activities that deviate from the relevant standards, and that cannot be solved in a manner that satisfies the authorities will be closed down.
- **Full compliance with environmental, safety and industrial hygiene standards** in the Group's plants in Israel and around the world.
- **Development of new products or new production lines** that are approved by the board of directors of the Company, **with a view to their impact on humans and the environment throughout the life cycle of the product**. Research and development is to take into account all stages of production, storage, transportation, use and removal at the end of the product's life. As a rule, preference will be given to products with biodegradable effluents, and to the imposition of policies for reducing effluent quantities. Use is made, where possible, in production processes, of environmentally friendly solvents and environmental considerations will be taken into account such as savings on energy and water.
- **Development of products and processes that reduce risks to humans and the environment**: including risk surveys for implementation of the process policy for reducing environmental impacts in order to ensure compliance with lawfully permitted values, and where technologically and economically possible, even beyond those values.
- **Reduction of emissions into the atmosphere during production, and compliance with standards**, including from unfocused sources. The Group has master plans for reduction.
- **Conservation of natural resources, planned reduction of greenhouse gases from its factories, and energy savings** whilst encouraging and investing resources in reduction of the use of energy and other natural resources.

Among other things, ICL is promoting the following in this area:

- **Transition to use of natural gas** as a source of energy where possible (see also section 4.1.17 below);

¹⁸ The "best available technological measures" are defined at law as follows: The best technology currently available for the prevention of hazards and nuisances and for the prevention of contamination of water sources, currently in use and economically implementable – section 1 of the Business Licensing (Concentrations of Salts in Industrial Effluent) Regulations, 5763-2003.

- **Responsible use of natural resources**, including saving on consumption of water and recycling of process water for production processes, pumping brine back into the Dead Sea, responsible use of land resources, restoration of river beds, restoration and preservation of mining and quarrying areas, and restitution of them to the State at the end of operations for the land zoning determined by the State, and in accordance with the relevant statutory provisions.
- **Reduction of quantity and increased use of waste and by-products of production processes** in order to bring about maximum restitution of resources and inputs consumed during the production process; also use of advanced recycling technologies such as catalytic recycling etc., reuse of water, recycling and reuse of raw materials and waste, use of by-products as raw materials in other production processes and proper treatment of waste.
- **Reduction at source of quantities of waste generated by ICL companies and increased recycling of recyclable waste**, including paper, cardboard, wood, beverage containers, rubber, metals, oils, batteries, printer heads, computer equipment, iron, plastic, glass, etc.
- **Constant cooperation** with manufacturers, suppliers, research institutes, customers and other users in the development and implementation of methods for the manufacture and use of products safely, whilst reducing and preventing harm to users and the environment;
- **Safe transportation** – selecting responsible carriers and instructing them, use of emergency systems to handle transportation failures, strict compliance with safe and standardized packaging and strict compliance with proper and adequate transportation measures.
- **Assistance to enterprises in the field of environmental protection**, such as protection and feeding of bird of prey populations in the Negev, and research into their conduct, preservation and biological restoration of rivers and streams, assistance to the Eshel Hanassi agricultural school in obtaining documentation for ISO 14001, project for the environmental reinforcement of the Bedouin village of Houra, training for hikers and tour guides, assistance in preparing hiking paths, working jointly with the authorities, conducting and implementing environmental surveys, site restorations, etc.
- **Establishing compliance with requirements in the fields of safety and environmental protection as one of the parameters for evaluating managerial bonuses and remuneration.**
- **Adoption of green construction processes at factories**

3.3.5 Industrial Safety and hygiene

Industrial manufacture in general and the treatment of hazardous substances and production at high pressures and temperatures in particular are dangerous and require the taking of precautionary measures. ICL has set itself a goal in the field of safety in all of its companies, to strive to achieve **zero accidents**. Over recent years, this on-going aim of improving excellence in the area of security in each company has been expressed both in a reduction in the number of accidents and near accidents and in an improvement in conditions of safety and in the level of safety in the workplace.

ICL's policy in this area includes, *inter alia*:

- **Adoption of international safety standards and compliance with the safety standards applied worldwide**; for the series of certifications of the factories, and the status of certification procedures, see sections 4.1.14, 4.2.15 and 4.3.15 below. Encouragement of a high and uncompromising level of awareness of safety and health among employees and service providers, construction contractors, transporters, suppliers and visitors to factories. Employee improvement teams in

Israel conceive of and implement original ideas for improving the level of safety. There are internal achievement competitions in the field of safety. Trainings, authorizations and internal drills are held to instill knowledge and readiness, inter alia in the Group's training center.

- **Constant improvement in safety and health targets** and their adoption, pursuant to a "zero accidents" policy.
- Implementation of advanced **behavioral safety, training and accident prevention processes**.
- **A comprehensive training system and control of authorizations** to employees, service providers and contract employees.
- **Safety and environmental monitoring checks** in work areas where this is required in order to ensure the health and safety of employees.
- Implementation of processes for **assessing hygiene risks** in order to prevent exposure of employees to products and processes at factories.
- Effecting **periodic medical checks for employees and operation of a system for occupational medicine** and preventative medicine inside the factories, in cooperation with hospitals and experts in occupational medicine and preventative medicine.
- Inter-company activities for **increasing awareness and drawing conclusions**, feedback and encouragement of plans and ideas, all via a Center of excellence of the entire ICL Group for the area of safety, in which safety representatives of the companies in Israel and around the world are members. The forum discusses ICL's guidelines and policies and events and operations occurring at the companies are presented for inter-company updates.
- System to **treat mishaps outside of the plants**.

The boards of directors of the companies, the safety committees which operate in the segments, in the companies and in the plants, periodically examine safety achievements and events, and the extent to which targets set in light of the Group's safety policy are met. The safety enforcement program is implemented by ICL companies, with the assistance of legal counsel, and with periodical inspection of the extent to which each segment and company meets the requirements of the law and internal procedures. Adoption of the standard for management of safety and hygiene systems in industry – Israeli Standard OSHAS 18001. Accidents and near accidents are analyzed in all ICL Israel companies and in most of the companies in Europe and the USA.

For further details of activities in the sectors, see sections 4.1.14, 4.2.15 and 4.3.15 below.

3.3.6 Environmental Risk Management

ICL takes steps to reduce, monitor and manage the environmental risks that its operations entail. These activities are done in cooperation with the authorities, with employees, suppliers and customers, as set out in this Report as well.

ICL manufactures products in factories on four continents which sell to many thousands of customers in more than 180 countries around the world. The raw materials used in production are partly chemicals which might be dangerous. The production processes require an investment of energy the production of which involves the combustion of fuels. These processes and some of these products have the potential of causing environmental damage, including with respect to waste water, emissions into the air, and waste generated during the course of manufacture. ICL acts to identify these hazards, and to prevent and minimize them where possible, in production, packaging, transportation, use, recycling and reuse, in cooperation with its customers and with the approval of the authorities.

In 2007, ICL started implementing a module for control of hazardous substances using ERP software.

ICL's policy is to act as a matter of course to identify, develop and implement means for measuring and monitoring environmental impacts. In this context, ICL invests in treatment of effluents and air emissions, waste, transportation, training of employees, service providers and consumers (where necessary), ICL companies work in cooperation and coordination with the Ministry for the Environment and with some environmental and social organizations.

3.3.7 Reduction of emissions and reduction of greenhouse gases (GHG)

ICL is striving to be an Israeli leader in **reduction of emissions in general and greenhouse gas (GHG) emissions in particular**. The Company's actions in this regard are being effected on two planes: One is to reduce emissions in production processes and a transition to use of natural gas and the other is encouragement of the development of new products which contribute to the reduction of emissions.

Pursuant to the above policy, the Company began a full examination of the Company's carbon balance and is preparing to test options for measuring the carbon footprint of its principal products.

3.3.8 Community involvement in environmental issues

As part of the community discourse with interested parties, ICL companies initiated the set up of community advisory panels (CAP) for factory representatives together with community representatives and environmental organizations, in which issues of environmental conservation are discussed and joint ventures implemented in various areas for the good of the public. The first forum in Israel was set up at the Bromine Compounds factory in the ICL Industrial Products segment more than 6 years ago. After that, other forums were set up including the Dead Sea Works forum (ICL Fertilizers) and the magnesium forum, with the involvement of residents of the area. One of the resolutions that were implemented was the setting up of a monitoring station at Neot Hakikar, financed by the factories, with the option being given to all residents to view the monitoring results on the website. 900,000 sqm of land south of the concession area were also transferred for agricultural cultivation to one of the Moshavim in the area.

3.3.9 Publication of environmental report

During the final quarter of 2008, the Bromine Compounds Company in the ICL Industrial Products sector published an environmental report for 2007. This public environmental report includes, inter alia, a description of the impact of its operations on the environment, the actions taken to reduce this impact, quantitative indexes, future targets, etc. The report is based on the reporting principles commonly employed around the world. The process of preparing the report included a lengthy discussion with interested parties.

This environmental report was intended to reinforce the relationship between the Company, the interested parties and the public at large, and is part of its strategic concept of generating full transparency for its operations. As a company that invests considerable resources in its environmental and communal operations. This report is the first that the Company has published and is one of the first reports published by the chemical industry in Israel. The other ICL companies in Israel are also in advanced stages of preparing environmental reports in a similar format.

Further details regarding environmental protection are set out in Chapter 4 below (sections 4.1.14, 4.2.14 and 4.3.14).

3.3.10 Social responsibility and involvement in the advancement of society and environmental conservation

Social involvement of the ICL group is reviewed and discussed by the board of directors of ICL, both by the donations committee and by joint operations teams of ICL and other companies in the Israel Corporation Group which operate joint social projects. ICL acts to preserve the dignity of its employees and of those employed by its service providers. In addition, ICL supports the community in areas where its factories are situated, and where its employees live. In this context, ICL contributes and encourages its employees to participate in a series of voluntary operations to promote the community, including:

- Support (for many years) of the educational clubs project which more than 600 children enjoy, assistance with studies and social enrichment, in around 50 clubs, mainly in the Negev area. This support is also expressed through the voluntary work done by hundreds employees of the Company (in their spare time) in running these clubs.
- Assistance to hospitals.
- Assistance to associations in the fields of education, culture, welfare and health.
- Assistance to schools.
- Assistance to Bedouin communities in educational and environmental activities (including special waste collection facilities), personal development, etc.
- Preservation and conservation of historical sites and natural sites.
- Assistance to women's associations: Maslan and Inbal, which handle victims of sexual assault in the Negev.
- Assistance in setting up a warm home for autistic teenagers in Beer Sheva.

In 2008, ICL donated approximately NIS 13.6 million, in addition to thousands of volunteer hours donated by its managers and employees.

For further particulars see chapter 13 of the directors' report for 2008.

ICL also donates to environmental conservation ventures and encourages its employees to volunteer in promoting these areas. In 2008, ICL donated, inter alia, to the following:

- A program for feeding vultures and preventing their extinction in the Negev.
- Initiated cleaning of the Arava Road from Dead Sea Works to Eilat.
- Maintenance of roads to nature reserves and Negev landscape (the hiking route to Mt. Hor, to the Small Canyon, to Ein Zin).
- Assisting hikers in the area of its operations.
- A refresher station on the way to Eilat for all drivers and hikers.
- Assisting regional cultural events, including hiking, bike riding – particularly for various associations that assist the disabled – treks, etc.

3.3.8 Code of ethics and internal compliance programs

The Board of Directors of ICL approved a code of ethics for the Company, which sets appropriate rules of conduct for the Company and its employees based on ICL values. The five basic principles of the code are these:

- Respect for the law;
- Fair business practices;
- Respect for others – employees, suppliers, customers and service providers;
- Proper use and protection of Company assets;
- Work in accordance with the compliance programs and procedures, as a basis for organizational excellence.

The code is intended also as a uniting framework for existing compliance programs in the Company, in the areas of securities, restrictive trade practices, safety, ecology and the prevention of sexual harassment. The senior managers of the Company and other employee groups have confirmed their personal commitment to fulfillment of the provisions of the code. ICL has a training and assimilation process of the code among employee groups in Israel and overseas.

ICL maintains a system of internal compliance to ensure that all relevant provisions of the law are upheld. It has been made clear to Company managers and suitable office-holders in ICL's companies that their managerial responsibilities include ensuring compliance with the law by the company in which they are officers. These matters are also regularly reviewed by the managements and boards of directors of the various companies. Under the compliance program, seminars are held for managers and employees suitable for such areas, and implementation of statutory provisions, etc., are checked as a matter of course.

ICL has professional forums, inter alia in the field of the environment, safety and hygiene, which are called Centers of Excellence. These forums are responsible, *inter alia*, for providing information and for connecting the various segments in fields that are relevant to them.

For further details of the implementation of compliance programs in each segment see sections 4.1.15(e), 4.2.16(e), 4.3.16(e) and 5.2(h) below.

3.4 Corporate Governance

ICL operates according to advanced principles of corporate governance, voluntarily applying rules designed to ensure checks and balances and to lead to good and proper corporate governance. The following points are worthy of mention:

Meetings of the Board of Directors and its supervision of the Company: In 2008, the Board of Directors convened sixteen (16) times, including meetings of the board of directors in the absence of management, which discussed a management evaluation and the relationship between management and the board. Investments in excess of a certain amount and organizational changes and acquisitions require the approval of the Board of Directors.

In addition to the Board of Directors of ICL, the companies in the segments of ICL also have boards of directors in which some of the members of the ICL Board of Directors are members, as well as officers in ICL and other persons, including independent directors. These boards of directors, themselves or through committees dedicated to specific subjects (finances, audit, investments, safety, ecology and security, R&D, human resources, and ad hoc committees), convene regularly, and review the activities of the companies in the segment.

Independence of the Board of Directors: There is separation between the roles of the Chairman of the Board and the CEO. The CEO and officers who are directly subordinate to the CEO do not serve as directors in the Company.

Qualifications and skills of directors: As of the date of the report, 11 out of the 12 members of the Board of Directors have accounting and financial expertise and as such, are deemed to be directors with special expertise (see section 10.2 of the Directors' Report for 2008). The directors (with the exception of the external directors, who are appointed by law for a period of three years) are elected each year at the general meeting. New directors receive suitable instruction about ICL and its operations. From time to time, the Board of Directors tours the Company's plants. Directors' remuneration is in accordance with the Companies Regulations (Rules for remuneration and expenses of an outside director), 5760-2000, as updated in 2008.

Board of Directors control over certain actions of the Company:

The Finance Committee and its actions: The Finance Committee reviews the drafts of the periodic report and the quarterly financial statements prepared by the Company for publication. The committee receives updates from management of the Company and from the external accountants regarding substantial issues that may have arisen during the course of preparation of the financial statements, and makes recommendations to the board of directors regarding approval of these reports. All the members of the Board of Directors are invited to the meetings of the committee, which also discusses financial exposure policy, hedging policy, and other matters relating to financial issues. In 2008, the Finance Committee convened six (6) times. For the overseeing of the financial statements, see section 10.3 of the report of the board of directors.

The Audit Committee and its actions: ICL and the companies in the segments have audit committees. Most of the members of the audit committee at ICL are independent directors and all of the external directors are members of it. ICL's audit committee is chaired by an external director. In 2008, the committee convened fourteen (14) times, in addition to meetings of the audit committees of the segments. The audit committee is responsible, among other things, for the annual and multi-year internal audit plan, based on a risk survey conducted for ICL's companies in Israel and abroad. The audit committee oversees the efficacy of the Company's internal auditor and ensures that the auditor has access to the tools, sources and information required for performance of his functions, in accordance with the relevant standards. The audit committee and the board of directors have approved procedures and controls intended to detect and bring about the authorization and reporting of transactions with interested parties, as required by law.

For additional details regarding the audit work done at ICL, see section 12.2 of the report of the board of directors for 2008.

In addition, the board of directors of ICL has set up other committees, including a Human Resources Committee, an Executive Committee and a Donations Committee. As required, the board of directors sets up ad hoc committees for certain issues.

3.5 Potential Production Capacity

The potential production capacity of the various plants is based on the nominal hourly output of the plants, multiplied by potential hours of operation per year, presuming continuous production over the year, 24 hours a day, with the exception of a few days for planned maintenance and repairs.

Actual production is usually lower than potential production capacity, due to unexpected breakdowns, special maintenance operations and market conditions.

The following is the annual production capacity of the principal plants:

ICL Fertilizers:

Potash approx. 6 million tons

Phosphate rock approx. 4.5 million tons.

Phosphate fertilizers and complex fertilizers – approx. 1.9 million tons.

ICL Industrial Products:

Elemental Bromine approx. 240,000 tons.

Bromine compounds approx. 300,000 tons¹⁹.

Chlorine-based biocides – approx. 37,000 tons.

Phosphorus compounds – approx. 150,000 tons.

ICL Performance Products:

Pure phosphoric acid (in terms of phosphorus oxide) – approx. 380,000 tons²⁰.

Phosphate salts and food additives – approx. 415,000 tons.

Other phosphate-based products – approx. 100,000 tons.

Other products at ICL Performance Products – approx. 530,000 tons.

¹⁹ Some facilities manufacture more than one product. Therefore, production capacity is dependant upon the range of products produced by each plant from time to time.

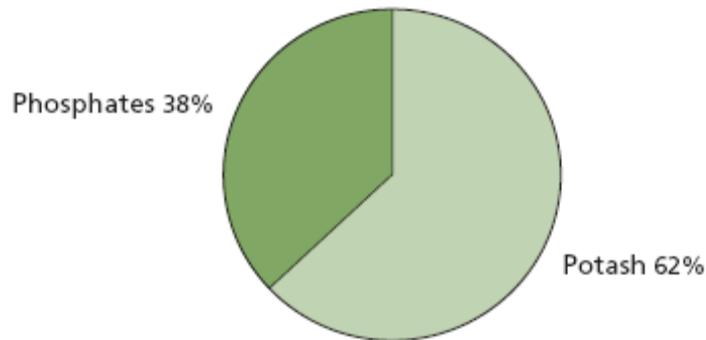
²⁰ Part of the consideration of utilizing production capacity for thermal phosphoric acid depends upon the economic viability of purchasing phosphorus (P₄), which is a raw material in the production of thermal phosphoric acid. The potential production capacity for phosphoric acid includes the production capacity of Fosbrasil, a Brazilian company, 44% held by ICL Performance Products, and which is approximately 70,000 tons a year. The Company also acquires phosphoric acid from third parties.

Chapter 4 – Description of the Corporation’s Business by Area of Activity

4.1 ICL Fertilizers

The following chart details the external sales²¹ of ICL Fertilizers, by product:

Total external sales for 2008 – \$ 3,914 million



4.1.1 General information about ICL Fertilizers

ICL Fertilizers develops, manufactures, markets and sells fertilizers that are based primarily on potash (potassium chloride) and phosphate. In 2008, sales of ICL Fertilizers totaled \$4.3 billion, representing approximately 60% of the total sales of ICL (including sales to other segments of the Company). The major products of ICL Fertilizers are potash, phosphate rock, sulfuric acid (primarily used as a raw material in the production of phosphoric acid), fertilizer-grade phosphoric acid, phosphate fertilizers, compound fertilizers, specialty fertilizers, and phosphate-based feed additives for livestock. According to recent publications, ICL Fertilizers was the world’s sixth- largest producer of potash, and ranked second in production and sales in Western Europe²².

ICL Fertilizers principal production facilities include its plants in Israel at Sodom (potash and salt), Mishor Rotem (phosphate rock, sulfuric acid, phosphoric acid, phosphate fertilizers and special compound fertilizers), Oron and Zin (phosphate salts), Kiryat Ata near Haifa (mainly liquid fertilizers for the local market and additives for animal feed), Spain (potash and raw salt), England (potash and raw salt), the Netherlands (mainly phosphate-based fertilizers and soluble fertilizers), Germany (fertilizers, mainly based on phosphates and potash), Belgium (soluble fertilizers) and Turkey (phosphate-based products used as animal feed additives).

Production and marketing activities for potash and phosphate fertilizers in Europe are coordinated by ICLFE, which was established to take advantage of synergies between ICL’s companies. In the Company’s estimation, ICL Fertilizers is today a “key player” in the European potash and phosphate fertilizer market.

²¹ The term “external sales” refers to the segment’s sales to customers outside of the ICL Group (customers that are not other segments of ICL).

²² Source: IFA, Fertecon.

Details of ICL Fertilizers' principal operations sites are set out in the map below:



Potassium, phosphorus and nitrogen (K, P and N) constitute the three major nutrients required for plant growth. There are no artificial substitutes for potassium and phosphorus. Each of these three elements plays a different role in plant development. All of these three major plant nutrients are naturally present in soil in different concentrations, but continued growing of crops depletes soil of nutrients and therefore each must be replenished from external sources through the use of fertilizers.

Potash is a plant's primary source of potassium, and phosphate is a plant's primary source of phosphorus.

Potassium and phosphorus are vital for many of a plant's physiological processes, including strengthening cereal stalks, stimulating root development, leaf and fruit health, and accelerating the growth rate of crops. Without these elements, crops cannot achieve their growth potential. The agriculture industry strives to derive the greatest production from a given cultivated area. The more optimal the soil fertilization, the greater the yield and the better quality the harvest will be in a given area, and therefore there is a correlation between efficiencies (in terms of benefit per dollar invested) in the agriculture industry and fertilizer consumption.

ICL Fertilizers is active mainly in the agriculture industry. This industry receives priority and support in many countries, particularly in the developing countries which are characterized by both population growth and growth in the standard of living, factors that lead to increases in food consumption and in fertilizer use. These markets, the largest of which are China, India and Brazil, are ICL Fertilizers' principal growth markets. Western Europe also represents a central market for ICL fertilizers, although growth is low in this market.

The barriers to entry in the fertilizer industry are high due to the heavy investment required to establish production facilities for the basic minerals, which are used as raw materials for the fertilizer industry, and the relatively lengthy time periods required to establish these factories. Similarly, this industry requires appropriate concessions and proximity of production facilities to quarries.

In the past few years the fertilizer industry has undergone consolidation, which has reduced the number of suppliers in the industry. Similarly, various manufacturers and customers have entered into cooperation agreements and have established joint ventures. Standing out among these are the merger in 2004 between IMC Global and Cargill Crop Nutrition (both American companies), which created the fertilizer giant Mosaic. The Canadian potash company PCS purchased shares which afforded it the control of Jordanian potash company APC (Arab Potash Corporation). In 2008, Yara, a Norwegian manufacturer of fertilizers, compound fertilizers and nitrogen fertilizers, acquired the Finnish company Kemira Grow-How (a manufacturer of compound fertilizers, phosphoric acid and owner of a phosphate mine in Finland). The marketing organizations of Belaruskali and Uralkali (BPC) were consolidated. Mergers also took place between fertilizer facilities and companies, mainly in North and South America and Europe. ICL was also party to this trend, purchasing

Iberpotash (a Spanish potash company) in 1998 (reaching 100% in 2001) and Cleveland Potash (a British potash company) in 2002.

1. Potash

- A. Potash is the common name for potassium chloride, which is the most common source of potassium for plants. Potassium is required for plant development, improves the plant's ability to withstand disease, increases the yield, improves the quality and lengthens the shelf life of the crop. ICL Fertilizers sells potash for direct application as a fertilizer and to compound fertilizer manufacturers. ICL Fertilizers also uses potash for its own production of compound fertilizers, based mainly on phosphate and potash.
- B. ICL Fertilizers produces potash from the Dead Sea and from underground mines in Spain and England. The potash production process in Israel is based on separating the potash from carnallite. The carnallite, which is a compound of potassium chloride, sodium chloride and magnesium chloride, precipitates in ponds located south of the Dead Sea, which contain brines drawn from the Dead Sea by means of one of the world's largest solar evaporation systems. The carnallite is transferred to the plants where the potash is separated from the common salt and the magnesium chloride in two parallel processes (known as "hot crystallization" and "cold crystallization").

Extraction of potash from underground mines in Spain and England is carried out on the basis of concessions and lease agreements. In these mines, sylvinitic (a mixture of potash and salt) is mined with varying concentrations of potash. The potash is separated from the salt in production facilities situated adjacent to the mines.

In 2008, ICL Fertilizers produced approximately 5 million tons of potash, representing 9% of the worldwide production of potash.

- C. There is brine seepage in one of the dikes enclosing ICL Fertilizers' evaporation ponds which has caused damage to the layer sealing the dike. As a result, holes have been found in the dike itself and cracks have appeared along its length. Under certain circumstances, these holes and/or cracks might endanger the stability of the dike (see also section 5.10.14). ICL Fertilizers, based on consultations with international experts in the field, has been taking and continues to take a variety of maintenance steps to retain the stability of the dike and to reinforce it, and is continually checking these steps in order to spot the development of malfunctions in the dikes.

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. Sinkholes have appeared in the area of the evaporation ponds, and in other places in the Dead Sea Works area. The development of 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 along the dikes, and to fill them in when they appear.

2. Fertilizers and Phosphates

- A. Phosphorus, which is provided by fertilizers that are derived from phosphate rock, directly assists with a long list of plants' physiological processes, including production of sugars (including starch), photosynthesis, and energy transfer. Phosphorus strengthens cereal straw, stimulates root development, promotes flower formation and hastens the maturity of crops.

- B. The principal raw material used in production of phosphate products is phosphate rock. ICL Fertilizers mines phosphate rock from open-pit mines in the Negev Desert. During 2008, ICL Fertilizers produced approximately 3.1 million tons of phosphate rock. ICL Fertilizers has the capacity to produce approximately 4.5 million metric tons of phosphate rock annually. 84% of the phosphate rock produced in 2008 was used to manufacture phosphate fertilizers and phosphoric acid, which have greater added value. The balance of the phosphate rock was sold to external producers who manufacture phosphoric acid and fertilizers and as direct application fertilizer. Up until the end of 2007, ICL Fertilizers' policy was to make use of most of the phosphate produced by it to generate products with a higher added value, at the expense of selling phosphate directly. In 2008, due to sharp increases in sale prices in the phosphate rock market, the Company increased phosphate rock production for sale as an end product.

- C. ICL Fertilizers produces fertilizer-grade phosphoric acid, phosphate fertilizers, compound fertilizers and specialty fertilizers at its facilities in Israel. ICL Fertilizers also has facilities for production of phosphate fertilizers and compound fertilizers in the Netherlands, Germany and Belgium, and feed additives facilities in Turkey and in Israel. ICL Fertilizers uses phosphate rock to produce fertilizer-grade phosphoric acid and fertilizers. Phosphoric acid production also requires significant quantities of sulfur, which ICL Fertilizers purchases from third parties (with respect to the fluctuations in sulfur prices, see section 4.1.11.3).

Most of the compound fertilizers manufactured by ICL Fertilizers are based on the elements phosphorus and potassium. Some of the compound fertilizers also contain nitrogen, which ICL Fertilizers acquires from third parties and incorporates with the phosphorus and potassium. ICL Fertilizers also produces specialty fertilizers including liquid fertilizers and fully soluble fertilizers. ICL Fertilizers is active in developing downstream products based on phosphate rock, including phosphate fertilizers and compound and specialty fertilizers.

The specialty fertilizers manufactured by ICL Fertilizers are designed for use mainly in intensive agriculture. In the assessment of ICL Fertilizers, it is the leading worldwide producer of MKP (Mono Potassium Phosphate) (around 40% to 50% of total world production), which is a unique type of fully soluble fertilizer, which contains potash and phosphate and is used mainly in drip irrigation systems and also in foliar spray and in hydroponic greenhouses. In addition, the Company produces the soluble fertilizer MAP (Mono Ammonium Phosphate) in a special facility, the output of which is approximately 10% of average world-wide production²³. These two products are produced in special processes developed by the Company, which are based on raw materials most of which ICL controls.

The Company's special fertilizers also include innovative fertilizers developed by the Company to meet the special requirements of customers, and which are being

²³

The information contained in this section is based on the Company's assessment of current market conditions and of current yields.

successfully produced in a semi-industrial demonstration facility. These are PeKacid and MagPhos, which are particularly acidic fertilizers, and Nutrivant, which is an NPK which contains a special surfactant for spraying foliage.

At the end of 2006, ICL Fertilizers completed construction of a new facility for mixing various kinds of soluble NPK for the local and export markets.

3. Influence of external factors on ICL fertilizers²⁴

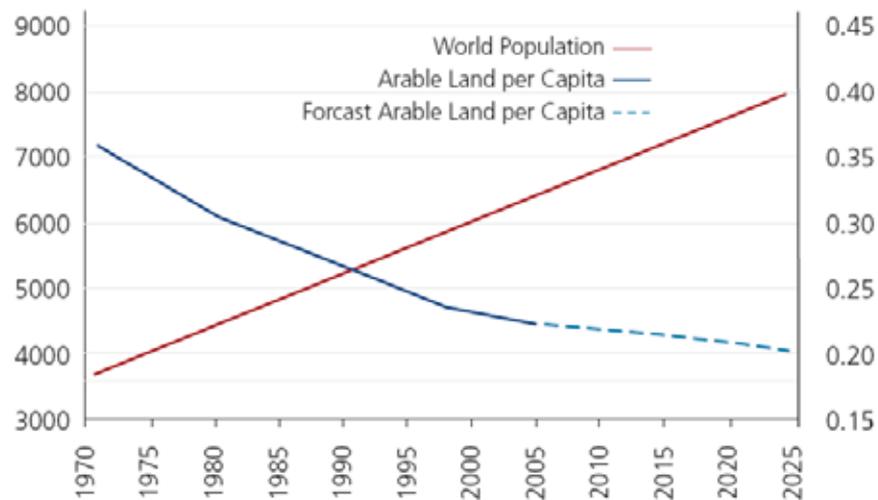
There is inter-dependency between the amount of arable land, the amount of food required by the population, and use of fertilizers. As the amount of arable land declines and the population grows, there is a need to produce greater quantities of food in smaller areas (in other words – a greater yield of produce in a smaller given area). This situation requires increasingly greater use of fertilizers.

Global population growth and the process of urbanization which causes diminishing arable land per capita, are expected to cause growth in demand for fertilizers over time (see the chart below). In addition, the increase in the standard of living and the resulting changes in nutrition habits lead to an increase in consumption of meat, primarily in the developing countries. Consumption of fertilizer per nutrition unit of meat is higher than for that of a nutrition unit of produce. As a result, consumption of fertilizers has increased. High energy costs and the ecological effects of using certain fuels have increased the use of fuels that are produced from agricultural products. Despite the long-term projections for growth in demand for fertilizers, in the short term demand for fertilizers is volatile and is affected by factors such as weather in the world's central agricultural growing regions, fluctuations in planting main crops, agricultural input costs, agricultural product prices and developments in biotechnology. Some of these factors are influenced by subsidies and lines of credit granted to farmers or to producers of inputs for agriculture in various countries, and by environmental regulations. In addition, currency exchange rates, legislation and international trade policies have an impact on the supply, demand and level of consumption of fertilizer worldwide. In spite of the volatility that can be caused in the short term as a result of these factors, the Company estimates that the policy of most countries worldwide is to ensure orderly and high-quality supply of food to the population, and thereby to encourage agricultural production, which should preserve the growth trend.

²⁴

The annual growth estimates of long term projected fertilizer consumption and the Company's assessments as to the continued increasing trend in long-term fertilizer demand around the world are considered forward-looking statements. The realization of these estimates cannot be certain and they are based on assumptions regarding population growth and reductions in farmland published by the FAO (the Food and Agriculture Organization of The United Nations), for the contents of which ICL is not responsible, and are based on estimates of the Company. Changes in growth of population and/or farmlands relative to these assumptions, in addition to changes in nutrition habits, will cause actual results to differ materially from the results projected or implied by this information.

Expected Growth In Global Population & Availability Of Arable Land



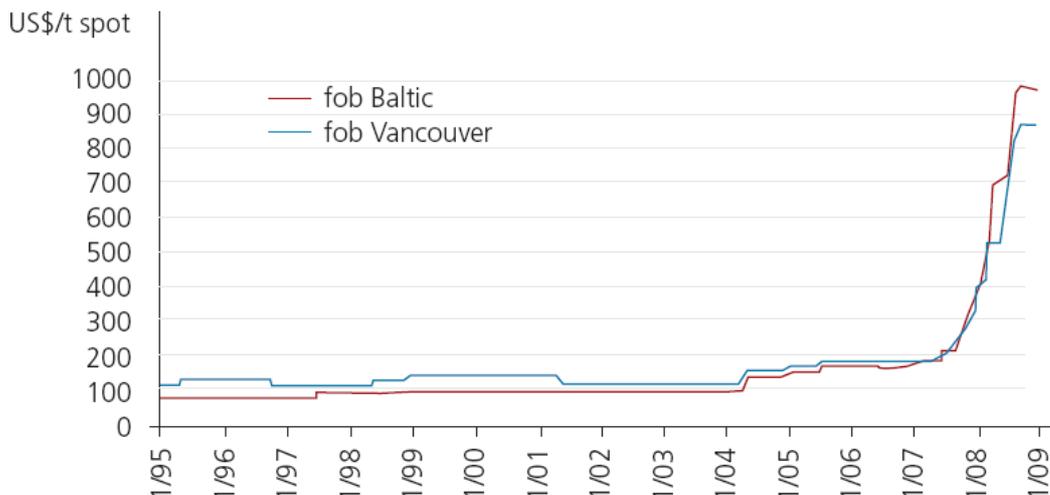
Source: FAO

During the past few years, changes have occurred in global agriculture that have significantly affected worldwide fertilizer demand. Heavy consumption of grains for food and for animal feed, which outpaced worldwide production, caused a decrease in cereal inventories. In addition, the Company estimates that in the past few years there has been a trend of high demand for fertilizers in the developing countries such as Brazil, India, and China. Increased use of agriculture-derived fuel (Bio fuels) in recent years has also contributed to growth in the consumption of fertilizers.

The demand for fertilizers, including potash and phosphate fertilizers, has brought about sharp increases in the prices of these products in recent years, which reached a peak in the third quarter of the year. As of the beginning of the fourth quarter, due to the economic crisis that is afflicting the entire world, the prices of phosphate fertilizers dropped from the peak levels that they had reached. At the same time, the prices of raw material, and in particular, sulfur for the production of phosphate fertilizers also dropped, as did the prices of energy and marine transportation. As at the date of this report, potash prices have remained stable. In March, BPC announced a new target price for Brazil of \$750 per ton potash (on CIF basis to large customers).

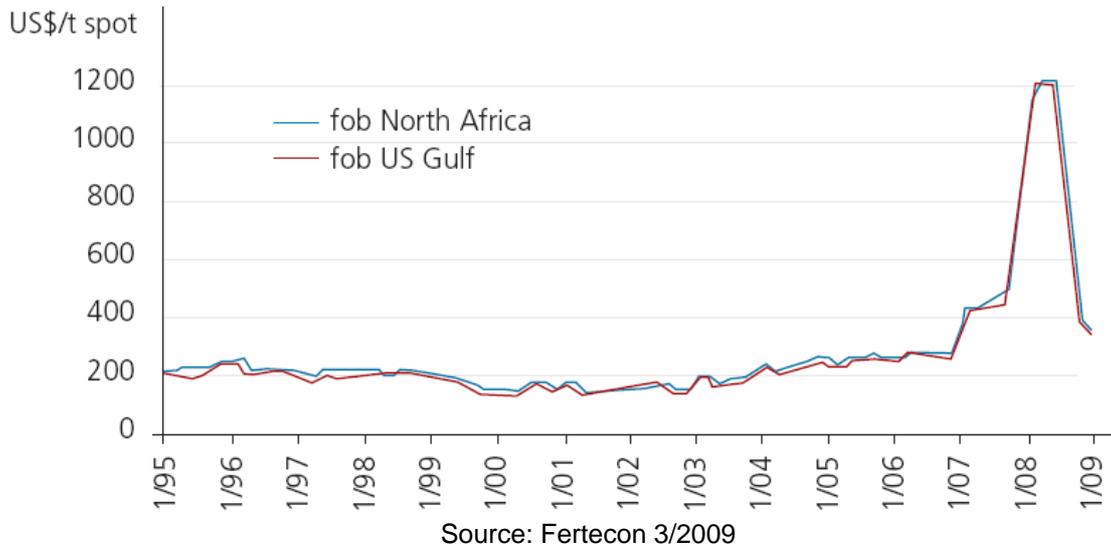
The following are developments in potash and phosphate fertilizers in recent years:

Potash Prices over Time (Dollars per Ton)

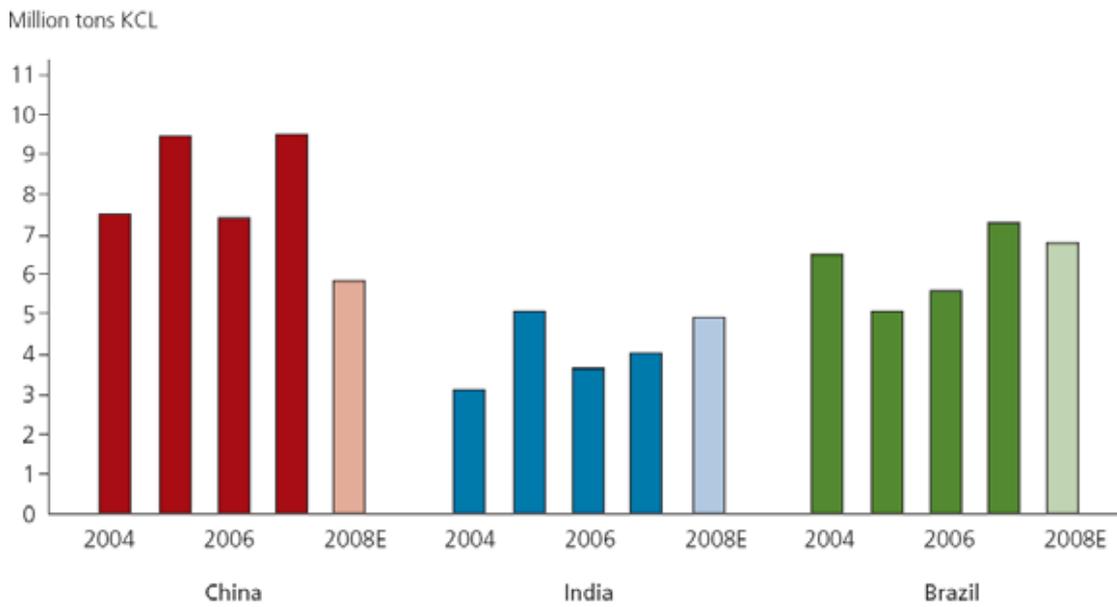


Source: Fertecon 3/2009

Phosphate Fertilizer Prices over Time (Dollars per Ton)



Potash Imports To Major Consumers

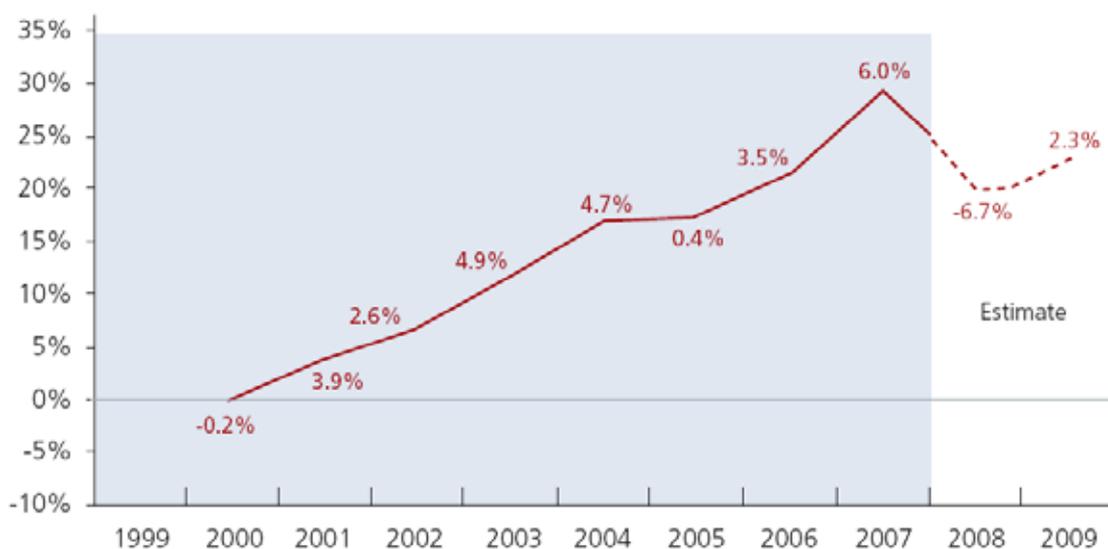


Source: Fertecon Potash Outlook, December 2008.

From 2002 until 2008, potash consumption around the world increased by approximately 22%. This growth in demand allowed most suppliers to reach high rates of utilization in their production and even to open “bottlenecks” for purposes of increasing production. This occurred in parallel with significant price increases. As from the end of 2006, the demand for fertilizers has increased, overtaking supply and causing a surplus of demand for potash which continued until the third quarter of 2008. Potash manufacturers have found it difficult to supply the demands of the market, and this has brought about frequent increases in potash prices. Towards the end of the third quarter of 2008, and following the credit crisis that has hit the world, demand for potash slowed and in the fourth quarter, there was a significant drop in sales. Despite the significant drop in sales, potash prices have remained stable and in many cases, potash producers have preferred to reduce or even stop production altogether in order to regulate inventory. Following the global market crisis and the drop in potash consumption, a number of manufacturers cancelled their intention, which had been declared prior to the crisis, to implement plans to expand production and to set up new mines.

In the Company’s assessment, notwithstanding the current crisis, the basic demand drivers for fertilizers in the long term have not changed substantially. The forecast increase in demand for grains is expected, in the long term, to put pressure on increased demand for fertilizers. The drop in demand for fertilizers in the short term, as aforesaid, might make the situation of grain inventories around the world even worse, which could cause increases in demand for grains later on²⁵.

The following is a graphical description of the current projections regarding the growth rate for worldwide potash demand²⁶:

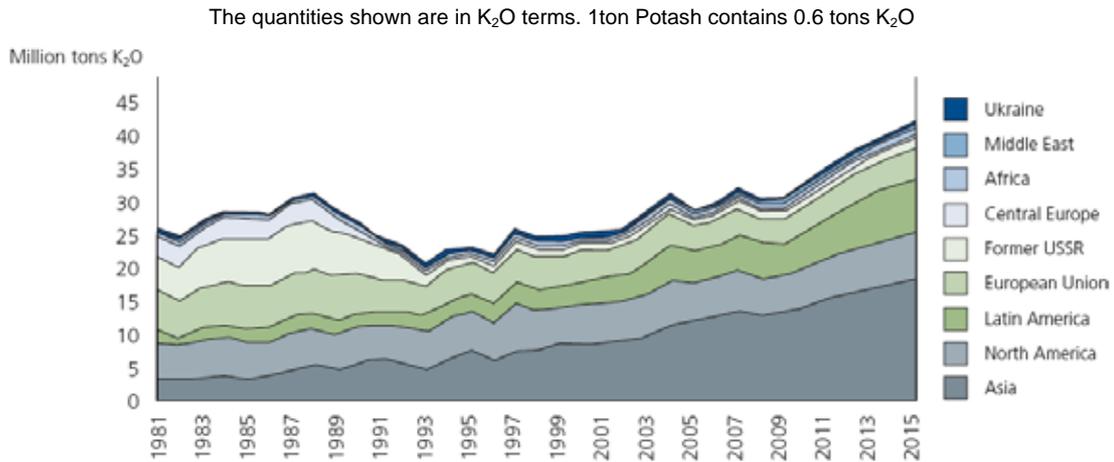


Source: IFA Short Term Prospects for World Agriculture & Fertilizers Demand 2007/08-2009/10

²⁵ The data, information and assessments stated in this section, including in the figures, are based on the data of competitors and on statistics published by the United States Department of Agriculture, and ICL is not liable for the contents of them. In any event, such data, information and assessments include forward-looking information, and the actual results might be different from these forecast figures, as a result of changes in the market and/or in production and/or in consumption of grains, compared with the forecast, as may occur.

²⁶ The information set out in this section and in the graph accompanying it includes forward-looking information which is based on various estimates in professional publications. These estimates might not come to fruition or might only come to partial fruition, and are dependent, *inter alia*, upon fluctuations in the world economy, upon climactic conditions, upon the rate of food production, upon fluctuations in demand and supply for various production inputs, upon developments in agriculture and industry, upon the world trade balance in particular between developed and developing countries, upon the effects of exchange rates, etc.

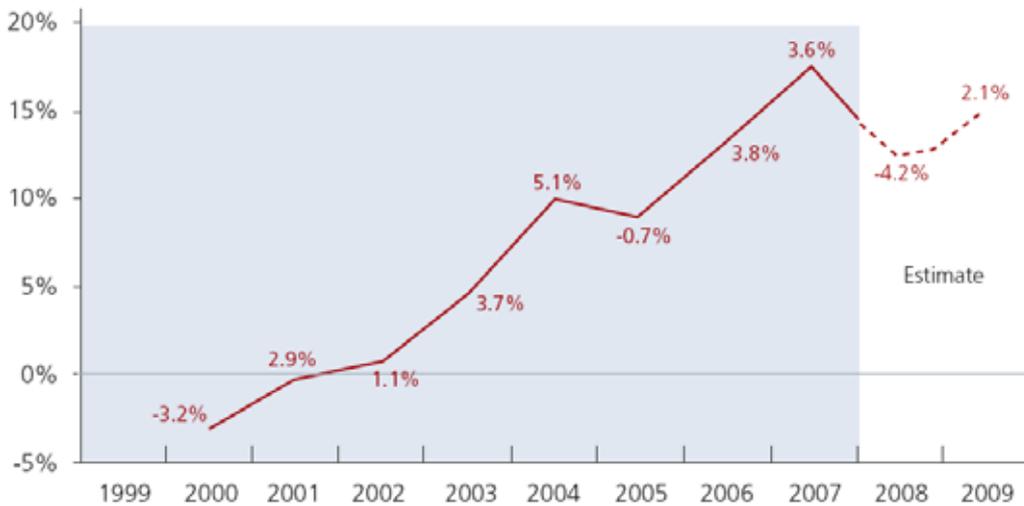
Past data shows that the trend of growth in demand for potash has been constant since the mid-Nineties with the main growth in potash consumption being concentrated in Asia and Latin America, whilst there has been stable demand in North America and Europe. The distribution is described below²⁷:



Source: Fertecon Potash Outlook, December 2008.

In the phosphate fertilizer market, an increase in demand had given rise to a sharp increase in prices which continued through to the third quarter of 2008. The impact of the economic crisis was visible in a significant drop in fertilizer prices, and at the same time, in the prices of the principal raw materials sulfur and ammonia.

The following graph shows current evaluations as to the rate of increase of international consumption of phosphate fertilizers²⁸:



Source: IFA Short Term Prospects for World Agriculture and Fertilizer Demand 2007/08 -2209/10

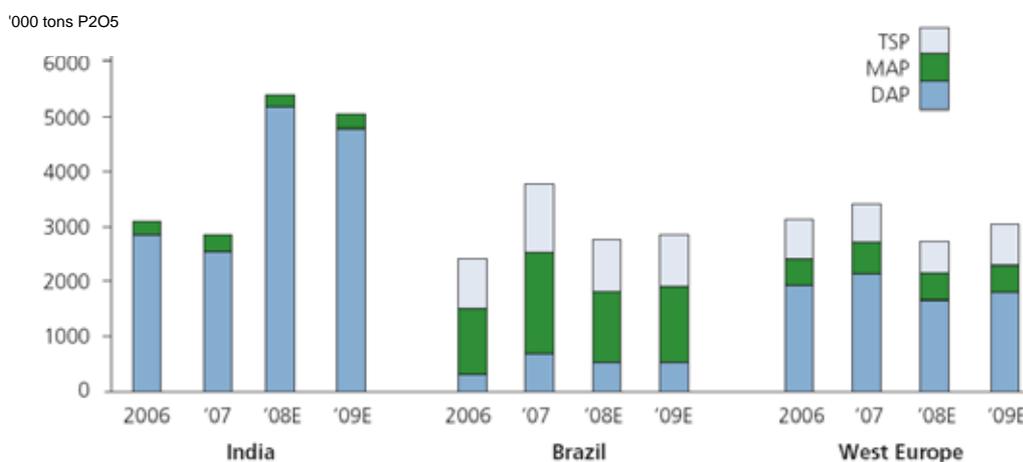
²⁷

The information set out in this section and in the graph accompanying it includes forward-looking information which is based on various estimates in professional publications. These estimates might not come to fruition or might only come to partial fruition, and are dependent, *inter alia*, upon fluctuations in the world economy, upon climactic conditions, upon the rate of food production, upon fluctuations in demand and supply for various production inputs, upon developments in agriculture and industry, upon the world trade balance in particular between developed and developing countries, upon the effects of exchange rates, etc.

²⁸

The information set out in this section and in the accompanying diagram includes forward-looking information based on various estimates in professional publications. These estimates might not come to fruition, or might only come to partial fruition, and are dependent, *inter alia*, upon fluctuations in the world economy, upon climactic conditions, upon the rate of food production, upon fluctuations in demand and supply for various production inputs, upon developments in agriculture and industry, upon the world trade balance in particular between developed and developing countries, upon the effects of exchange rates, etc.

The following graph shows the increase in importation of phosphate fertilizers in principal countries:



Source: Processed Phosphate Outlook (Jan 2009)

4. ICL Fertilizers' operations are subject to various legislative and regulatory limitations. For details see section 4.1.15 below.

5. Quantitative data regarding production and sales, in thousands of tons:

The following are details of potash production and sales (thousands of tons):

	2008	2007
Production	4,968	5,078
Sales to external customers	4,483	5,191
Sales to internal customers	253	264
Total Sales (including internal sales)	4,736	5,455
Closing inventory	1,517	1,285

The drop in quantities of potash sold in 2008 compared with 2007 stems from a drop in demand for potash in the fourth quarter, due to the international credit crisis which broke out at the end of the third quarter of 2008, which caused an international slow-down in economic activity, a drop in the price of agricultural merchandise and a drop in demand for fertilizers.

The development of potash production at ICL Fertilizers over recent years has been as follows:



The following are details of the production and sales of fertilizers and phosphates (thousands of tons):

	2008	2007
Phosphate rock		
Rock production	3,088	3,069
Sales*	588	288
Fertilizers		
Production	1,543	1,771
Sales*	1,423	1,784

* To external customers (excluding sales to companies in the Group).

Production of phosphate rock is in accordance with demand for internal use and for sale to external customers, whilst retaining appropriate levels of inventory. As noted above, due to the increase in the prices of phosphate rock around the world, ICL Fertilizers worked to increase production of this rock, and to sell it as an end product.

ICL Fertilizers has invested in opening bottle-necks in phosphate-based fertilizer production processes both in Israel and in Europe, concentrating on manufacturing a specific basket of fertilizers, which brought about a significant increase in fertilizer yields both in Israel and in Europe which was expressed in production quantities up to the end of the third quarter of 2008. As of the fourth quarter, the quantities of fertilizer production fell alongside the sharp drop in the level of worldwide demand.

4.1.2 Products and Services

ICL Fertilizers manufactures fertilizers and raw materials for the fertilizer industry and for application by end consumers. The raw materials produced by the Company are potash (potassium chloride), phosphate rock, sulfuric acid and phosphoric acid, which are used in the production of phosphate fertilizers and compound fertilizers or for direct application. The compound fertilizers are products that contain various formulations of potash, phosphorus and nitrogen, which are the vital nutrients for crops, and are used for application by the end user.

4.1.3 Breakdown of revenues and profitability of products and services

The following is an analysis of the revenue and gross profit according to product:

	Year	Revenues (\$ million)*	% of ICL Revenues*	Gross profit (\$ million)	Gross profit (% of revenues)
Phosphates and fertilizers	2008	1,680.9	23.8	658.9	39.2
	2007	813.3	19.5	269.6	33.1
Potash	2008	2,700.0	38.3	1,884.4	69.8
	2007	1386.4	33.2	661.5	47.7

* For purposes of this table, revenue figures for the product group and for ICL used in calculation of percentage figures include revenue among business segments.

The increase in revenues in 2008 compared with the previous year stems from a significant increase in the prices of potash and fertilizers the impact of which was set off by a drop in the quantity sold.

The improvement in gross profits stems from an increase in sale prices as set out above, whilst on the other hand, gross profits were negatively affected mainly by an increase in average sulfur prices and energy costs, and by the appreciation of the shekel against the dollar.

4.1.4 New products

During the course of 2006, production of technical-grade MAP (mono ammonium phosphate) commenced. This product is a compound of phosphorus and nitrogen and serves primarily as a fertilizer for irrigation agriculture, is fully soluble and has many additional quality characteristics. The process of manufacturing MAP has high synergies with the company's existing production processes in the segment and contributes to reinforcing the basket of special products

In this context, an innovative potassium phosphate fertilizer has been developed, with a very high ph (2.2), the commercial name of which is PeKacid, on the basis of which the company is now investing in developing the combination of this fertilizer with additional micro-elements. The company also developed a series of NPK fertilizer mixtures which have a special surfactant that is designed for foliar spraying. In addition, ICL Fertilizers completed development of a unique concentrated fertilizer which will be used for the development of innovative compounds of soluble NPK.

4.1.5 Customers

A. Dependence on single customer

ICL Fertilizers does not have any single customer that accounted for more than 10% of the total sales of ICL.

B. Geographical distribution of external sales:

	2008		2007	
	\$ millions	%	\$ millions	%
Israel	309	8	186	10
North America	52	2	24	1
South America	857	22	439	22
Europe	1,337	34	722	37
Asia	1,149	29	504	26
Rest of World	210	54	85	4

There was an increase in revenues to all destinations due to increased prices. In addition, there was also an increase in sales to India of potash. On the other hand, the main destinations in which the drop was felt were Brazil, China and Western Europe.

4.1.6 Marketing and Distribution

The primary markets of ICL Fertilizers are Brazil, India, China, Israel, France, Spain, England and Germany. ICL Fertilizers sells its fertilizer products primarily via a network of its own sales offices as well as sales agents throughout the world. Most of ICL Fertilizers' sales are not transacted by means of long-term contracts or orders, but rather via current orders close to the date of supply. Consequently, the concept of a backlog has no meaning for ICL Fertilizers. ICL Fertilizers ships its products from Israel to customers overseas by ships (mainly bulk ships) that it leases in the marketplace and loads using dedicated facilities in the ports of Ashdod and Eilat.

ICL Fertilizers has special port facilities for bulk loading in Barcelona, Amsterdam, Ludwigshafen (Germany) and Teesside (UK).

4.1.7 Competition

A. Conditions of competition in areas of activity and tackling competition

1. General

The main competitive factor in the field of fertilizers is the product price. For this reason companies located in proximity to sources of raw materials, ports and customers benefit from competitive advantages. In the estimation of ICL Fertilizers, its cost of producing potash in Israel is among the lowest in the world. ICL Fertilizers plants in Israel and in Europe are relatively close to ports. In addition, Israel's relative proximity to the Asian and Western European markets and advantages in costs of shipping to the Brazilian market, afford ICL Fertilizers a logistical advantage over other large fertilizer exporters that are active in these markets. Additional factors that affect competition include product quality and service.

2. Potash

ICL Fertilizers is an important player in the potash market. In 2008 ICL Fertilizers ranked sixth in size among potash producers worldwide, and was the second-largest in Western Europe. The seven leading worldwide manufacturers in this industry produce approximately 82% of the global potash production²⁹.

It should further be noted that up till now, the increase in demand is supplied in the potash market by existing producers, by opening bottlenecks or expanding existing facilities. In recent years, a number of producers announced projected expansions of their production capacities in the coming years. As a result of the economic and financial crisis in the second half of 2008 and thereafter, a number of potash producers gave notice of deferral of investments in projects to expand their production capacities. In addition, many potash producers reduced their rates of production and others ceased production for various periods.

The company estimates that the expected increase in supply by existing manufacturers in the coming years, based on these suppliers' announcements regarding projected expansions, will not exceed the expected rate of growth of demand for potash, based on assessments regarding the average long-term rate of growth in demand for potash³⁰.

3. Fertilizers and Phosphates

The phosphate fertilizer market is extremely competitive. Among the competitors are international companies and government companies. This market is divided among many producers. ICL Fertilizers' share in the worldwide market is relatively small, though in Western Europe ICL Fertilizers is a leading producer and supplier of compound fertilizers based on phosphorus and potassium. The primary competitive factor in the phosphate fertilizer market is price. Additional factors that are less significant are product quality and new products that provide unique solutions.

ICL Fertilizers, being a manufacturer of phosphate rock, has a relative advantage with respect to manufacture of most phosphate fertilizers over those manufacturers who must purchase phosphate rock from external suppliers in order to manufacture phosphate fertilizers. With the increase in phosphate rock prices as of the end of 2007, the weight of this factor increased significantly in the status of ICL Fertilizers' competitive edge. Due to its geographical location, the logistical synergies with potash operations in Israel and its relative proximity to its customers, ICL Fertilizers has logistical advantages over several other manufacturers. For this reason ICL Fertilizers' strategy is to continue to develop production and sales of downstream products with higher added value, including specialty fertilizers. In addition, ICL Fertilizers is focused on markets where it has a logistical advantage. ICL Fertilizers is also working towards increasing sales in locations that have opposite agricultural seasons to those in the northern hemisphere, thereby increasing the spread of its sales over the year. The next significant addition to production capacity expected for the international market towards 2011/2012 is the entry into production of the M'aa'den project being constructed in Saudi Arabia, which is based on a new phosphate mine and sulfuric acid and phosphoric acid production facilities expected to produce approximately 3 million tons of DAP. This project is expected to be completed at the beginning of the coming decade. The proposed target markets for this plant are mainly India and South East Asian countries. At this stage, it is difficult to estimate the impact of the project on the supply and demand balance for DAP around the world, and this will depend, inter alia, on the rate of continued increase of the demand for phosphate fertilizers.

²⁹ Source: Fertecon assessment of total quantities of potash manufactured, as well as the financial statements of the main companies.

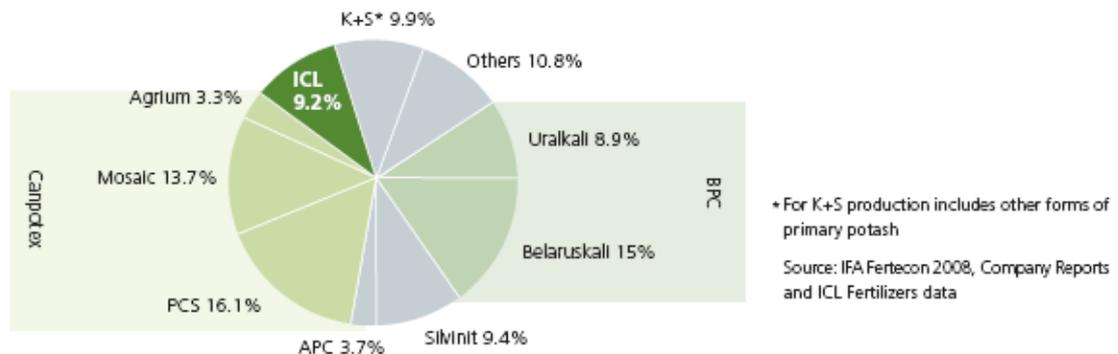
³⁰ The information stated in this section includes forward-looking statements. This information is based upon competitors' announcements and also upon statistics published by the United States Department of Agriculture. Actual results may materially differ from these projections as a result of changes in market conditions and/or production and/or grain consumption and/or prices and/or costs relative to these projections, which may occur.

B. Main competitors in the field of fertilizers

1. Potash

The significant competitors of ICL Fertilizers in the area of potash are: PCS (US and Canada), Mosaic (US and Canada), Belaruskali (Belarus), K+S (Germany), Uralkali (Ukraine), Silvinit (Russia) and APC (Jordan).

Production of potash by ICL Fertilizers and competitors in 2008 was as follows:



Canpotex – The export association of the Saskatchewan potash producers (Canada).

BPC – The export association of Belaruskali and Uralkali.

Source: IFA Fertecon 2008- 2009, Company Reports and ICL Fertilizers data.

2. Fertilizers and Phosphates

There are many phosphate production facilities located in many countries including the United States, Morocco, China, Russia, Brazil, Jordan and Tunisia. The main producers whose product areas are more relevant to the competitive environment of the Company are: Mosaic (US), PCS (US), OCP (Morocco), Group Chimique Tunisienne (Tunisia), Fosfertil (Brazil) and Roullier Group (Europe).

C. Approach for tackling competition:

ICL Fertilizers holds an advantage, as noted above, in its low production cost of potash in Sodom. In addition, ICL Fertilizers works very actively to enhance its competitive edge. These activities include processes to realize efficiencies and exploit advantages of scale, technological improvements in production processes, development of specialty niche markets, and development of products that respond to special customer needs and downstream products (including specialty fertilizers and soluble fertilizers) for which competition is relatively low. In addition, ICL Fertilizers capitalizes upon logistical advantages that it possesses relative to its competitors. ICL Fertilizers has the ability to utilize seaports in the Mediterranean Sea, the Red Sea and Europe for delivery to its various markets. In certain markets, ICL Fertilizers is able to combine an assortment of products for an individual market or customer, which provides it with an advantage vis-à-vis various customers, whereby ICL Fertilizers can ship its bulk products on larger ships and as a result at a lower cost per ton.

In addition, the combination of production facilities in a number of different locations worldwide and diverse logistical options, enable the Company to respond to customer needs and to be flexible with regard to delivery timetables and quantities.

4.1.8 Seasonality

The seasonal nature of demand for ICL Fertilizers' products gives rise generally to quarterly sales volatility, as sales levels in the second and third quarters are generally higher than sales in the first and fourth quarters. In recent years, due to various influences, including price increases and the effects of negotiations in China and India on the timing of sales, the effects of seasonality explained above were not necessarily felt at all. It should be noted that the drop in sales in the fourth quarter of 2008 was affected, inter alia, by the global credit crisis. The following is a breakdown of revenues by quarter for 2007-2008 in millions of dollars:

	<u>Q 1</u>	<u>Q 2</u>	<u>Q 3</u>	<u>Q 4</u>
2008	951	1352	1440	509
2007	452	481	539	676

4.1.9 Production³¹

A. Potash

ICL Fertilizers' annual production of potash in 2008 was approximately 5 million tons (approximately 9% of the total global production). ICL Fertilizers is acting to increase its annual production at a number of main focal points, as follows:

1. During 2008, conversion of use of part of the area at Evaporation Pond 3 at the Dead Sea from salt precipitation to carnallite precipitation was completed. As a result of that, carnallite production increased by approximately 250,000 tons of potash a year. In ICL Fertilizers' assessment, the first carnallite harvest is expected to take place in the middle of 2009.
2. ICL Fertilizers is promoting another program for gradually increasing its potash production at Sodom by an additional 250,000 tons, which would be implemented by 2011 through technological improvements and the opening of bottlenecks in existing plants.
3. In Europe in 2007 and 2008, investments were made in the purchase of mining equipment in Spain and in the development of new mining regions in England, and additional investments are planned with the aim of increasing production capacity gradually from 2008 until 2010, by approximately 300,000 tons a year.

On the basis of these expected expansions, potash production capacity is expected to reach 6.5 million tons in 2011³².

For additional projects, see section 4.1.17B.

³¹ The estimates in this section regarding increased production and increased production capacity are forward-looking information based on the estimates available as at the date of publication of this report. Completion of the works might take longer and there is no certainty that they will be fully successful.

³² The information in this section is forward-looking information. It might not be realized, in whole or in part or a different date than the forecast, inter alia, due to delay in receipt of the required consents, delays in planning, building and running in of the improvements mentioned above and due to formation of new "bottlenecks" in the production chain or in the logistics chain which will prevent full utilization of the production capacity.

B. Fertilizers and Phosphates

During 2008, ICL Fertilizers produced approximately 3.1 million tons of phosphate rock. The Company used 84% of its annual production of phosphate rock as a raw material for the production of downstream products.

In 2008, ICL Fertilizers produced approximately 1.5 million tons of phosphate fertilizers and compound fertilizers.

In light of the increase in demand in the field of phosphate rock and phosphate fertilizers which began in 2007, the Company has begun to promote plans for increasing the production of these products. During the first nine months of 2008, production of phosphate rock was increased with the aim of exploiting the relatively high prices of phosphate rock in the market for this product. During the fourth quarter, due to the market slow-down, production was reduced and adjusted to the new demand levels.

In the field of green acid, which is used as a raw material in the production of fertilizers, the Company is advancing a program to increase production capacity by 40,000 tons, in P₂O₅ terms, a year.

In the field of fertilizers, the Company is advancing a program to gradually increase production capacity by approximately 250,000 tons over the coming four years.

These increases are intended to be achieved as a result of technological improvements and the opening of bottlenecks.

4.1.10 Research and Development

A. Research and development activities and results

ICL Fertilizers' research and development activities during the period of this report focused on the following topics:

1. Adaptation of types of phosphate rock to production of phosphoric acid and its downstream products as part of an effort to exploit existing phosphate reserves.
2. Development of alternative methods for increasing potash raw materials production capability in Sodom.
3. Development of new products in the area of soluble fertilizers.
4. Improvement of the quality of its offered products.
5. Development of processes for exploiting phosphate deposits, thought till now to be uneconomical and/or inappropriate for the purpose of production of phosphoric acid. In this context, low-organic phosphates have been mapped in order to designate them for sale to acid manufacturers overseas.
6. Research in the area of environmental protection, including development of methods for reducing effluent quantities and neutralizing effluents in existing ponds.
7. Potential impact of the Dead Sea Canal on production at Sodom.
8. Development of a process for oxidization of the organic material in 4D phosphoric acid and purified phosphoric acid.
9. Conduct of research and laboratory and field experiments to improve processes at the production plants at Sodom.
10. Development of processes to improve efficiency in phosphate washing and beneficiation processes.

B. Research and development expenses

Total research and development expenses in 2008 amounted to approximately \$4.3 million.

4.1.11 Raw materials and suppliers

A. Primary raw materials used in the field of fertilizers

1. Potash

ICL Fertilizers manufactures and produces the basic raw materials for production of potash – carnallite in Israel and sylvinite in Spain and England. The other primary components it uses for production of potash, as noted, are heavy fuel (natural gas in Spain and England), industrial water and maintenance supplies.

2. Phosphate rock

The primary raw material used in production of ICL Fertilizers' phosphate products is phosphate rock. Phosphate rock is extracted from open-pit mines in a number of locations in the Negev Desert. ICL Fertilizers also sells phosphate rock as an end-product.

3. Phosphoric and sulfuric acids

ICL Fertilizers manufactures fertilizer-grade phosphoric acid at its facilities in Israel. Phosphoric acid is produced from phosphate rock and sulfuric acid, which is also produced in Israel. Sulfuric acid is produced from sulfur.

In 2008, ICL Fertilizers consumed approximately 625,000 tons of sulfur. The sulfur was purchased from a number of external sources in Russia, Canada, Germany, Kazakhstan, Italy and Israel.

During the first three quarters of 2008, sulfur prices continued increasing sharply and reached a level of \$ 840 per ton FOB Vancouver contract (being the index price for sulfur contract prices around the world). During the fourth quarter, as part of the slow-down in the international fertilizer market, sulfur prices dropped very sharply. Middle-East FOB sulfur prices, which are the index price for sulfur deals on the spot market, decreased from \$ 800 per ton to \$ 40 per ton as at January 15, 2009³³.

4.1.12 Working capital

A. Raw material inventory policy

ICL Fertilizers itself produces most of the raw materials used in its production processes. The raw materials acquired from external sources are mainly sulfur and a few other components (nutrients) for production of compound fertilizers.

The primary raw material for potash production is located in evaporation ponds in Sodom and underground mines in England and Spain. The phosphate is mined from open-pit mines in the Negev Desert.

The Company maintains sulfur, phosphate and other auxiliary material inventories in quantities that take into account the projected level of production based on consumption characteristics, supply dates, distance from the supplier and other logistical considerations.

³³ Last spot price (source: Fertecon Sulphur)

B. Finished product inventory policy

ICL Fertilizers' strategy is to maintain adequate inventory to ensure orderly supply to customers in consideration of the customers' distance from the production sites and their requirements for inventory availability.

In Sodom there is a relative advantage of virtually unlimited storage capability. Due to the dry climate in Sodom, potash can be stored in piles in open areas. Therefore the potash production in the production facilities in Sodom is not necessarily dependant on the rate of sales. Product that is not sold is stored in open areas within the area of the plant. The storage advantage in Sodom enables ICL Fertilizers to produce potash continuously in Spain and England as well, while the main potash inventory of ICL Fertilizers is held in Sodom. In 2008, due to the effect of the global financial crisis, the consumption of fertilizers dropped in general, and the consumption of potash dropped in particular. As a result, ICL Fertilizers accrued surplus potash inventory over operating inventory.

Regarding phosphate fertilizers, ICL Fertilizers' strategy is to produce in an optimal manner which enables ICL Fertilizers to choose the preferred alternatives among selling phosphate rock, fertilizer-grade phosphoric acid, phosphate fertilizers, compound fertilizers, or producing pure phosphoric acid. The strategy of maintaining inventories is set accordingly.

C. Credit policy

ICL Fertilizers extends credit terms to its clients according to customary practices in their locations. The group's sales are generally covered by trade credit risk insurance or by letters of credit from banks with high credit ratings.

Credit at the end of 2008 was as follows:

December 31, 2008		
	Average credit level (\$ millions)	Average credit days
Customers	817	74
Suppliers	230	50

December 31, 2007		
	Average credit level (\$ millions)	Average credit days
Customers	454	77
Suppliers	184	63

4.1.13 Environmental Conservation

A. General

Environmental protection is integrated into ICL Fertilizers' business strategy and forms an integral part of its sustainable development policy. ICL Fertilizers acts diligently and constantly endeavors to minimize its impact on the environment. All of the segment companies in Israel operate in accordance with Israeli standard IS 14001 for the management of environmental systems, and regularly perform internal and external systems checks. The Company has an internal compliance plan in place with respect to environmental conservation which is expressed in the performance of compliance checks by various persons. The board of directors of ICL Fertilizers is constantly following up environmental matters via a special sub-committee to supervise operations in this regard.

ICL Fertilizers carries out its activities while trying to minimize environmental impacts and while making responsible and educated use of natural resources such as land and water. Mining and quarrying works by segment companies are done in such a way as to minimize

harm to natural resources and the landscape. ICL Fertilizers restores mining sites both during mining and after the mining is complete. ICL Fertilizers also restores areas of mining clay and wadi loam in the area of Sodom. At the Zin Oron and Mishor Rotem mining sites, financing for final restoration of the mines, including restoration of the landscape, flora, etc. is provided by the Phosphate Mines Restoration Fund, while initial restoration of the landscape (known as "arranging") is being done at ICL Fertilizers' expense, as an integral part of the mining operations. Financing for the quarry sites in Sodom is provided by the Dead Sea Sites Restoration Fund; in both cases the funds are financed by ICL Fertilizers.

ICL Fertilizers invests tens of millions of dollars each year in projects to improve environmental performance at production sites, and throughout the production and marketing processes for its products. Segment companies will continue investing large sums in the coming years in order to comply with binding environmental standards, whilst implementing the best and most available technology. Segment companies carry out projects to prevent and minimize point and non-point emissions into the atmosphere, to set up absorption systems in its various facilities, to set up systems for the treatment of effluents, for the proper treatment of hazardous substances and for responsible management of waste in full coordination with the Ministry of the Environment with respect to targets and timetables.

In the framework of the Responsible Care program, at the beginning of 2005 the Company established a Community Advisory Panel (CAP), consisting of senior executives of Dead Sea Works, representatives of the Tamar Regional Council, residents of the area near the plants at Sodom, and representatives of the hotels in Sodom. The panel deals with environmental problems that concern the residents and with cooperative activities. In this context, some 900,000 sqm was allocated to farmers from Neot Hakikar, a monitoring station was set up in communities at the instruction of the Ministry for the Environment, visits have been conducted for residents at the ICL Fertilizers sites, and for management of the facilities at the various communities, various issues are and were reviewed by professionals, etc.

ICL Fertilizers runs a training program for employees on the topic of environmental matters in the various companies, in an effort to raise the Company's employees' awareness of and participation in matters of environmental matters. This activity includes periodical training, special training for professional teams, such as an environmental course for operators, shift managers and work managers, engineers and researchers, etc. There are also seminars for employees on the topic of environmental protection, emergency staff drills for handling hazardous materials, a safety and ecology day for all employees, improvement teams has been set up on environmental and safety matters, the members of the team being rewarded for achievements in these areas. Environmental protection trustees trained specially for this purpose also run activities.

ICL Fertilizers has an internal compliance program to ensure compliance with statutes and standards.

Below is a list of actions taken by ICL Fertilizers during the past year:

1. Air Quality
 - A master plan is in place at ICL Fertilizers' facilities to reduce point emissions into the atmosphere.
 - ICL Fertilizers is implementing a master plan to reduce emissions into the atmosphere from non-specific sources.
2. Liquid and Solid Waste
 - In Spain, a multi-year program is underway to relocate salt piles while paying close attention to the issue of wastewater drainage and handling of sludge.

- Waste recycling by ICL Fertilizers, whereby ICL Fertilizers removes metals, used oils and other disposable materials for recycling. In England, the Company operates a backfill project, the purpose of which is to inject part of the process by-products back into the mine instead of dumping them at sea.
- At the Dead Sea Works, technology for tertiary treatment of sanitary effluent was investigated jointly with the Ministry for the Environment and the appropriate technology has been selected. Construction is due to end by the end of 2009³⁴.
- At the Zin factory, a system for collecting sanitary effluent and a biological treatment facility for such sanitary effluent are in operation. At Oron, a system for collection of sanitary effluent to be treated at Zin is currently being run.
- At the Rotem site, a waste water project is being implemented with the principal aims of reducing effluent quantities, recycling waste water, reducing water consumption and treatment of waste water at the start of the flow. During the course of 2008, the amount of effluent at the Rotem site was reduced by approximately 20% compared with the previous year. Since 2005, when the project was commenced, the quantity of effluents has been reduced by more than 50%. In addition, a saving of approximately 0.5 million cubic liters of water compared with the previous year was achieved.

3. Hazardous Substances

- Continued implementation of a master plan for methods of collecting liquid hazardous substances at Rotem.
- Continued regulation of the issue of solid waste at Rotem, in coordination with the authorities.
- In 2007, commencement of implementation of annual master plan to prevent ground pollution by fuels or oils at Rotem sites. The plan is moving forward and regulation of fuel stations and systems for collection of run off and oils at garages has been commenced.
- Promotion of computerized systems for control and monitoring of quantities, and permits regarding hazardous substances.
- Computerization of toxins permit on the SAP system, including introduction of barriers to prevent deviations from the quantities set out in the permit.

B. Future material capital expenditures for environmental matters

During 2008, ICL Fertilizers invested a total of \$18.7 million in the acquisition of property, plant and equipment for prevention of environmental hazards and recorded \$15.52 million as a current expense. During 2009, ICL Fertilizers is expected to invest approximately \$33.7 million in property, plant and equipment and to incur similar current expenses to those incurred in 2008 for these purposes. In ICL Fertilizers' estimation, there is not expected to be a decrease in the level of these expenses in subsequent years^{35 36}.

³⁴ The information contained in this section regarding dates of planning, completion of construction and operation, is forward-looking and is based on existing statutes and standards, on the requirements of various authorities known at present and on engineering assessments with respect to the technology of the solution that the Company's engineers currently possess. The realization of these estimates cannot be certain. Any change in any of these estimates, including any change in the estimates made by the Company's engineers, technological difficulties or the solution being tested, or in industrial implementation of it, or any change in implementation of the requirements of the authorities or the provisions of the law might bring about different results from the above.

³⁵ The information set out in this paragraph is forward-looking information and it is not possible to know whether it will occur, or to what extent. Its occurrence depends on developments in legislation and

In January 2007, the Ministry of the Environment gave notice to the Tamar Regional Council that it sought to add conditions to the business license of Dead Sea Works relating to the power station, for implementation as of January 1, 2008. The new requirements are stricter than the existing standards, mainly with respect to the nitrogen oxide emissions and the Company has commenced the project of installing new equipment to comply with these requirements, including a facility to reduce nitrogen oxide, at a cost of approximately \$ 2 million, as well as an increase of current operations inputs. The equipment is expected to be operational at the beginning of 2010. At the same time, DSW is preparing to activate most of the existing power station facilities for operation using natural gas, when such reaches Sodom, in lieu of fuel oil. According to an agreement between DSW and the Ministry of the Environment of January 2008, the Ministry shall issue interim provisions regarding the conditions of the business license, which shall regulate operation of the station during the period prior to activation of the nitrogen oxide reduction facility.

At the beginning of 2008, the Ministry of the Environment issued new requirements for new conditions of the business license for the Sdom site, including stricter requirements than the conditions that had existed up until the beginning of the year. During the course of 2008, professionals in the field on behalf of the Company and the professional teams of the Southern district of the Ministry of the Environment held discussions and reached agreements and understandings regarding the above conditions. As at the date of this report, the new conditions have not yet been received from the Tamar Regional Council.

4.1.14 Safety and health

Some of ICL Fertilizers' products, as well as the raw materials and production processes, involve various levels of risks to persons who might be exposed to them. ICL Fertilizers must comply with the safety standards and requirements prescribed, in part, under local law, and in part under international and local standards. There is a trend towards new and stricter requirements, as a result of which, various investments might be required.

ICL Fertilizers is continually making special investments in safety and health measures, with the aim of preventing accidents and continually taking care of employees in the segment, and of persons in and around the facilities and the products.

The boards of directors of ICL Fertilizers, the safety committees in the segment and the committees that operate at the facilities, periodically examine safety achievements and events, and the extent to which targets set in light of ICL Fertilizers' safety policy are met. In 2008, the ICL Fertilizers' Safety Committee met five times. ICL Fertilizers has a safety and health compliance plan and effects internal and external checking processes in order to ensure compliance with legal requirements and ICL's guidelines.

All of the facilities at ICL Fertilizers' sites in Israel and the Netherlands have been authorized under the OSHA 18001 Organizational Health and Safety Standard.

ICL Fertilizers has a training and compliance system set up in order to encourage a high and uncompromising level of awareness of safety and health among employees, contractors and their employees operating on its premises, including programs such as *Bamah* – Conduct-Based Safety, and the coordination and operation of ICL's Safety and Health Excellence Center. Safety and health goals are set periodically, with the aim of constantly improving safety and health goals, and implementation of such with the aim of

delegated legislation, standards that might be adopted and the policy of the Ministry for the Environment, locating technology and adapting it to industrial applications, etc.

36

The Company's projections regarding the projected costs and/or expenses in the area of environmental matters constitute forward-looking statements, and are based on legislation and regulation currently in effect, on governmental requirements known to ICL Fertilizers and on investment estimates made by Company engineers. The realization of these estimates cannot be certain. Any change in these estimates, including changes in the estimates made by the Company's engineers or changes in adoption of governmental requirements or legal rulings may cause different results than those stated above.

achieving zero accidents. Employee protection means include, *inter alia*, protections on equipment and facilities and at work sites, protective measures for employees, procedures and training, appointing safety commissioners and safety teams, and investigating accidents and near-accidents.

In the area of health, there is an industrial health and preventative medicine system which includes, *inter alia*, periodic medical checks, environmental monitoring and risk assessments with respect to products and processes in facilities.

The transportation of chemical products around the world requires the implementation of appropriate transportation and storage measures. Transportation Enterprises Ltd., a subsidiary of ICL (which, as of January 1, 2008, is part of the ICL Fertilizers segment), transports a large portion of the dangerous materials and it has transportation equipment including special tankers (isotanks) for this purpose. Transportation Enterprises Ltd. has a safety system headed by a Safety Officer. There is also a system at ICL (in the ICL Industrial Products segment) for treating exceptional incidents in the transportation of dangerous substances, which can be used, as necessary, by all of the ICL companies.

4.1.15 Limitations on and regulation of the Corporation

A. Concessions and Permits

Following is a brief description of restrictions in law or legal arrangements, related to the operations of the corporation, which could have significance implications for ICL.

1. Dead Sea Concession Law 5721-1961³⁷

According to the Dead Sea Concession Law 5721-1961 (hereinafter: the “**Concession Law**”), as amended in 1986, Dead Sea Works Ltd. (“DSW”) of ICL Fertilizers was granted a concession to commercially exploit the resources of the Dead Sea and to lease the ground required for its plants for a term that will expire on March 31, 2030, with the right of first refusal for a period after the concession’s expiration. As consideration for the concession, ICL Fertilizers pays royalties to the Israeli government, calculated at the rate of 5% of the value of the products ex works, excluding certain expenses³⁸, as well as leasing fees.

As of 2010, the government can demand renegotiation of the level of royalties, for quantities exceeding 3 million tons of potash produced and sold in any given year starting from that year onward, provided that the amount of the royalties for such surplus is to be no more than 10% of the value of the potassium chloride at the factory gate, less certain expenses. .

³⁷ The full wording of the Law and the concession agreement are set out in the Concession Law and in the Schedule thereto, published in *Sefer Hachukkim* 5721, 130, *Sefer Hachukkim* 5728, 144 and *Sefer Hachukkim* 5746, 1180. For indirect amendments to the concession, see the Dead Sea (Legislative Amendments) Law, 5755-1995 and the Dead Sea (Planning and Building) (Temporary Provisions for Particular Work) Law, 5754-1994.

³⁸ The concession prescribes a mechanism for calculating the value of potassium chloride, bromine and magnesium chloride as follows – sale price less adequate expenses for packaging, sales commission and insurance, less a further 10% of the sum after the reduction. A similar method of calculation was prescribed for other products on which royalties are owed to which an additional 15% will be added to the adequate expenses deducted from the sale price. The precise mechanism for the calculation is set out in section 15 of the concession agreement, and the above is only a general summary. There is also a specific arrangement in place with respect to the payment of royalties required of DSW on the basis of carnallite used in magnesium production.

On the basis of the Concession Law and the concession agreement, Dead Sea Works, a division of ICL Fertilizers, granted a sub-concession to Dead Sea Bromine, a division of ICL Industrial Products to produce bromine and bromine compounds from the Dead Sea, whose term also extends until 2030.

In recent years, the Ministry of Industry, Trade and Labor (MOIT) has conducted audits regarding the payment of royalties. The Company has not received a copy of the findings of the audits. There is a claim by the Accountant General in the Ministry of Finance, based apparently on these audits, that DSW paid royalties in deficient sums, which he alleges amount to "hundreds of millions of shekels". In 2007, a letter was received from the Accountant General exercising the arbitration clause in the concession agreement regarding these deficient payments.

The requirement to pay royalties is under the concession which DSW received from the State, and is mentioned in the sub-concession given by DSW to the Bromine Company, with the consent of the government. DSW, based also on the opinion of its legal counsel, is of the opinion that the royalties paid were calculated in the manner required under these concessions, in accordance with a calculation method implemented consistently over decades, from the days when it was wholly owned by the State, which method was known to the State, which had made no claims (prior to the receipt of the above letters from the Accountant General) regarding incorrect calculation or payment of the royalties. It should be noted that payment of the royalties was checked several times in the past by the authorities of the State, including the State Comptroller and the correctness of the sums was confirmed by DSW's external accountants as well. Therefore, based also on the opinion of its legal counsel, DSW is of the opinion that the demands and claims of the Accountant General have no basis, and therefore, in accordance with the above, no provision has been recorded in the financial statements.

DSW is trying to resolve the dispute by agreement with the authorities of the State. If no agreement is reached, the dispute will be sent to arbitration, in accordance with the concession agreement.

2. Phosphate Mining Concessions

Rotem has mined phosphate in the Negev Desert for over fifty years. This mining is done through concessions for mining phosphate, granted from time to time by the State by authority of the Mining Ordinance. In June 2002 Rotem received three concessions covering Rotem Field (valid until the end of 2021), Tzafir Field (valid until the end of 2021), and Effeh Field (valid until the end of 2013)³⁹. With respect to its mining of phosphate, Rotem is obligated to pay royalties to the State according to the formula set forth in the Mining Ordinance.

The validity of the concessions granted to Rotem is contingent upon mining permit agreements ("Permits") between Rotem and the Israel Lands Administration (ILA) regarding the areas covered by the concessions. Rotem signed a final negotiated draft of the Permits and paid usage fees to the Administration as required and in accordance with the Permits, in September 2003⁴⁰. The Administration has not yet returned the countersigned Permits, but is acting in accordance with them, and Rotem believes,

³⁹ These concessions replaced a prior concession from 1995, which combined a permit from the Israel Lands Administration, which was granted for the Rotem and Tzafir Fields, with minor changes in boundaries compared with the 2002 concessions, and whose term was until April 2005.

⁴⁰ The Israel Lands Administration has not yet returned signed copies of the Permits to Rotem, and in so doing has yielded to the request of the Ministry of Finance, stemming from a dispute regarding the amount of royalties that Rotem is required to pay. A representative of the Treasury recently demanded payment of additional royalties for the period from 1995 to 2001, of about \$7.7 million, in addition to interest and linkage differences. The amount of royalties that the Ministry of Finance is demanding is higher than the amount agreed upon by Rotem and the Ministry of Infrastructure with respect to later years. Rotem believes this demand is baseless. The disputes between Rotem and the State were referred to mediation, which is already in advanced stages. According to a legal opinion of Rotem's legal counsel, the mining permits that it signed, and that are even being observed by both parties, are in full force and effect as of the date of Rotem's signature in September 2003, and on that date the mining permits from 2002 also took effect, and replaced the preceding permit from 1995.

according to a legal opinion of Rotem's legal counsel, that the Administration is bound by the terms of the Permits.

With respect to the Hatrurim phosphate field, the Company has a mining concession from the Supervisor of Mines up until the end of April, 2009.⁴¹, after the Israel Lands Administration had postponed handling the grant of a long-term mining permit⁴². ICL Fertilizers is acting to extend the mining permit. If the permit is not granted after the date mentioned above, this will not have a significant impact on the Company's results.

Mining and quarrying activities require a permit specific to a given area within the framework of a zoning plan, according to the Planning and Construction Law, 5725 – 1965. These plans are updated, as needed, from time to time. As of the date of this Report, various applications have been submitted to the planning authorities. Plan applications that were submitted by Rotem for extending the implementation stages past 2005, relating to a plan from 1991 that target the Tzafir area (Zin – Oron) for mining and quarrying, was approved in its majority, and the implementation stages were extended for four years, until 2009. In parallel, Rotem was asked to prepare a new outline plan and detailed plans regarding a portion of the mine fields.

3. ICL Fertilizers' European concessions

In Spain, ICL Fertilizers has been granted mining concessions based on Spanish legislation enacted in 1973. Pursuant to the legislation, the regional government in Catalonia issued special mining regulations, which granted IP, an ICL Fertilizers company, separate concessions for each of the 126 different sites relevant for its current and future mining operations. Some of the concessions are in force until 2037 and the rest of them are in force until 2067. Under these concessions IP is obligated to pay a fixed amount of 0.15 Euro per dunam per year.

CPL's mining concession is based on approximately 113 mining leases and concessions for extracting various minerals, in addition to numerous easements and rights of way from private owners of land under which CPL operates or, in the case of mining underneath the North Sea, granted by the British Crown. The terms of all of these leases, concessions, easements and rights of way extend until 2015-2038. For details of royalties the company pays under these concessions, see note 24B of the Financial Statements.

4. Well Production Permits

The supply of water to the ICL Fertilizers plants at the Dead Sea is via a series of wells that the Company operates, both within and outside of the concession area. ICL Fertilizers has lease agreements and production permits for these wells⁴³.

⁴¹ The temporary production license will be granted to Rotem with the consent of the Ministry of Finance, Rotem having been informed that the State does not undertake to extend the license if no agreement is reached on the issue of royalties in the mediation agreed upon. The notice from the Supervisor of Mines was given after the Supervisor received the ILA's consent to award the temporary license.

⁴² Here too, the ILA has acted in accordance with the request of the Ministry of Finance as a result of the abovementioned dispute regarding royalties. On March 25, 2007, the representative of the Accountant General informed the ILA that the Accountant General agrees to grant the mining permit for a period of one year until April 1, 2008 which will be extended as mentioned above for an additional three months (the term was extended as set out above) and as a result, the Supervisor of Mines gave notice that Rotem may mine phosphate for a period of one year (which was extended as set out above).

⁴³ In respect of the wells at ein Ofarim, the lease period from the ILA will expire during 2009. ICL Fertilizers is negotiating with the ILA to extend these licenses.

B. Business licenses and toxic substance permits

A valid business license has been issued for the sites where the business segment's plants operate, in accordance with legal the law.

A proposed draft of additional conditions to the business license was submitted to one of the Companies in the segment, Dead Sea Works Ltd. which the Ministry for the Environment intends to add to its business license was submitted to DSW pursuant to the Business Licensing Law, 5728-1968. A list of new requirements were accepted into the proposal. All of the issues were handled with the Ministry for the Environment. As at the date of publication of this report, they are waiting to receive the new conditions of the license.

In addition, ICL Fertilizers has a valid toxic substance permit under the Hazardous Materials Law (1993) which is renewed from time to time, and also a valid permit for pumping wastewater into the Dead Sea under the Prevention of Sea Pollution from Land-Based Sources Law (1988) which requires renewal from time to time. The costs of renewal of these licenses are not, in and of themselves, substantial.

C. Outline plan and building permits

Pursuant to special legislation with respect to the Dead Sea concession⁴⁴, enacted in 1994 and -1995, the provisions of the Planning and Building Law were applied to the Dead Sea Works under the concession, subject to special provisions set out in the aforesaid legislation. These laws stated that any work done by March 1994 would be deemed to have been performed in accordance with the Planning and Building Law, and they also defined a list of particular projects which could be set up under a special brief procedure, and which would be deemed to have been approved under planning and building laws. The Company is operating in accordance with the outline plan and the detailed plans for its activities in the concession area at Sodom. In 2007, 4 new detailed plans were approved for some of the Company's operations at Sodom, one for the facility site at Sodom, two plans for mining sites for wadi loam in clay in the Cheimar and Zin valleys, and a plan for Pond no. 3. In 2008, one plan regarding the natural gas system at Sdom was approved. The Company is currently preparing additional plans for the rest of its sites at Sodom. Likewise, when the facility outline plan is approved, the Company will obtain final approval of buildings constructed since 1994 and which could not be approved as long as there was no approved outline plan.

For planning procedures with respect to Pond No. 5, see section 4.1.18A below.

Rotem's mining and quarrying works are regulated under outline plans and detailed plans, some of which have been approved and others of which are in the process of deposit and discussion in the planning authorities⁴⁵. At several of Rotem's sites, there are structures and land usages that do not have building permits or in respect of which the building permits that existed have expired. In most cases, these are old buildings or land uses in respect of which the opinion was, in the past, that they did not require building permits. Rotem is constantly working to fill in the existing licensing gaps.

⁴⁴ The Dead Sea Concession (Planning and Building) (Temporary Provisions for Particular Works) Law, 5754-1994 and the Dead Sea Concession (Legislative Amendments) Law, 5755-1995.

⁴⁵ In March 2009, a group of residents of the Negev presented a petition to the High Court of Justice against the government authorities and Rotem in connection with the planning process for mining phosphate rock in an area designated for mining called "Sde Barir". The claimants claim that the planning and permitting process was flawed and that substantively that the dust from the mining will injure the health of the residents. As of the date of the report, this petition is pending before the court.

D. Price monitoring under the Supervision of Commodities and Services Law 5718-1957

1. Fertilizer prices. The prices of fertilizer-grade phosphoric acid for local Israeli customers are regulated under the Supervision of Prices for Commodities and Services Law 5756-1996. The quantity of these products sold in Israel by ICL Fertilizers is not material to ICL.
2. For further information regarding the declaration of ICL and its subsidiaries as a monopoly in certain fields in Israel see section 5.7 below.

E. Standards and Quality Control

There are no binding standards for the manufacture of fertilizers⁴⁶. However, ICL Fertilizers has a comprehensive quality control system. Each company in this business segment has its unique aspects (described below), but there are three central common issues:

- All have quality management certification;
- All ICL Fertilizer plants in Israel are participants in the international Responsible Care program;
- In most of ICL Fertilizers' plants advanced quality control methodologies are implemented, such as: authorization under quality control standards, as set out below, deployment of quality improvement staff, Six Sigma, and information management. Its principal facilities also have a comprehensive internal and external quality assurance system.

Here is a list of quality control procedures by plant:

1. Sodom Facility

All of the manufacturing and service facilities in Sodom and some of the HQ units have ISO 9001 quality management certification.

The potash production and service facility in Sodom has ISO 14001 certification for environmental quality management.

All of the manufacturing and service facilities in Sodom have OSHA 18001 safety management certification.

2. Mishor Rotem and Tzafir Facility

These facilities have ISO 9001 quality management certification and they have ISO 14001 environmental quality management certification and OSHA 18001 safety management certification. A number of products have been approved as suitable for use as raw materials for the food industry and have HACCP certification.

3. The Netherlands

ICL Fertilizers' facilities in the Netherlands have the ISO 9001 quality management certification, ISO 14001 environmental quality management certification and OSHA 18001 safety management certification. Amfert's white acid facility operates under the HACCP standard.

⁴⁶ In some countries, there are provisions that restrict the content of certain substances for certain uses. See for instance, re cadmium in phosphate fertilizers – section I below.

4. United Kingdom

ICL Fertilizers' facilities in England have the ISO 9001 quality management certification and ISO 14001 management certification for environmental quality. Similarly, environmental control is conducted through EMAS (Eco-Management and Audit Scheme)⁴⁷.

5. Spain

ICL Fertilizers' facilities in Spain received ISO 14001 environmental quality management certification and ISO 90001 quality management certification.

6. Haifa

ICL Fertilizers' facilities at Kiryat Ata have the ISO 9001 and ISO 14001 certifications.

7. Turkey

ICL Fertilizers' facilities in Turkey have ISO 9001 certification.

F. Compliance Programs

ICL Fertilizers has implemented compliance programs with regard to prevention of sexual harassment, antitrust, securities, a code of ethics, safety and ecology. ICL Fertilizers has begun implementing a compliance program for the prevention of smoking in the workplace.

G Limits on Cadmium in phosphate fertilizers

Phosphate rock, which ICL mines, contains cadmium in various concentrations. Cadmium is considered to have a harmful effect on the environment. Most countries to which ICL sells phosphate fertilizers do not presently limit quantities of cadmium in fertilizer. The European Union has been conducting, for some time, a series of public hearings prior to enacting regulations, limiting the maximum concentration of cadmium permitted in phosphate fertilizers anywhere within the countries that are European Union members. According to a draft of these regulations published as part of the hearing, the regulations would come into effect gradually over a period of five to fifteen years after being approved. A number of European countries have already imposed limits on quantities of cadmium in fertilizer. However, these cadmium limitations generally do not currently prohibit sales of phosphate fertilizers containing cadmium above such limits. Instead, they require payment of a penalty for selling nonconforming products. Some of ICL Fertilizers' fertilizer products currently exceed these cadmium limits. ICL Fertilizers intends to adapt its use of raw materials in fertilizer production to concentrations that will comply with the cadmium limits imposed by the proposed European Union regulations at an insubstantial cost⁴⁸.

⁴⁷ This is a European program under which the Company's environmental quality data are confirmed by a third party. The Company's environmental quality report which was verified by EMAS, was approved by the authorities with no requirement for further review.

⁴⁸ The information contained in this section includes forward-looking information. This information is based on ICL's intentions and might not occur or might occur only in part, *inter alia* due to changes in legislation that will be passed at the end of the process, or in the interpretation or implementation thereof, and due to technical requirements or the costs of adjustment to standards, as may become apparent during the course of the adjustment attempts.

H. Chemical Licensing in Europe (REACH)

A statute covering the framework for licensing and evaluation of chemicals in the European Union (known as "REACH") came into force as of June 1, 2007. The statute applies to chemicals already on the market, as well as to new chemicals. Pursuant to this legislation, manufacturers on the common market and importers of chemicals or of chemicals that are contained in certain products shall be required to submit dossiers contain detailed information of every substance or chemical compound manufactured or imported into Europe, in quantities of more than one ton per year (the amount and content of the information depends on the volume of production and/or sales in Europe, and the nature of the product in terms of its effect on health and the environment). Some of the products will undergo risk evaluation based on the information that is submitted, and others will only be able to be sold in the future under an appropriate permit. Such a permit will only be granted on the basis of quantified evidence relating to management of the product with regard to health and environmental aspects, the lack of appropriate alternatives, and a socio-economic evaluation. Certain enduring, environmentally toxic substances, will require permits based only on a socio-economic evaluation and on condition that an alternative development plan is submitted, in order to encourage a transition to use of less hazardous substance.

The statute will be implemented gradually, between 2008 and 2018, under the supervision of the new European Chemicals Agency (ECHA).

Implementation of REACH will cause ICL Fertilizers additional costs in the field of licensing, control and implementation of product stewardship programs with customers, and might increase the prices of raw materials. Another possible risk caused by REACH legislation is reduction in usage of a product / material, or removal of certain products from the European market. Likewise, there will be products and compounds that require investment in alternative research and development due to the need to remove certain components from use in the European market. ICL Fertilizers is preparing to implement the provisions of this statute.

Since this is the initial stage of the preparations by regulators, manufacturers and suppliers alike to implement the law, and there is still no accumulated experience in implementing it, ICL Fertilizers cannot assess the amount of the costs that it might bear with respect to implementation of the law.

I. Salt Accumulation at Mines in Spain

ICL Fertilizers has two potash production sites in Spain. Salt, which accumulates in heaps, is a by-product of the production of potash. Most of the accumulated salt is of no use. Periodically, ICL Fertilizers needs to obtain permits to make these heaps on its sites and to obtain a permit to renew its "environmental license" once every 8 years (like every other company in Spain).

With regard to the environmental license, both sites have received a license which is valid until 2015. As to the license to make the heaps of salt on the sites: There is a permit to heap on the first site sufficient for 20 years (until 2026) at current production levels.

With respect to the second site, there is a heaping license on the site sufficient, at current production rates for around 3 more years. ICL Fertilizers is acting to renew this permit and to obtain an area that will suffice for 30 years at present production levels.

J. Clean Air Law

On July 31, 2008, the Clean Air Law, 5768-2008 was enacted, which was intended to regulate the treatment and supervision of air pollution in Israel. The provisions of the Law that are

relevant to ICL Fertilizers shall be applied gradually, partly as of 2011 and partly as of 2014. A considerable portion of the provisions of the Law shall be regulated in accordance with regulations that have not yet been made, and the date of making of which is by 2010. The Company is continuing to prepare for implementation of the provisions of the Law.

4.1.16 Legal Proceedings

A. Pending proceedings regarding the Kishon River

1. The production site of Fertilizers and Chemical Materials Ltd., a company in the ICL Fertilizers segment (hereinafter: "**F&C**") borders the Kishon River. For decades F&C along with many other entities, municipalities and plants, had diverted wastewater to the Kishon River.
2. Between 2001 and 2005, a number of claims for monetary damages were filed in the Haifa District Court against F&C and a series of other defendants (including the State of Israel) by 50 individuals (or their heirs or dependants), most of them fishermen who had worked, according to the claims, in the Kishon's fishing harbor. The plaintiffs claim that the diversion of wastewater into the Kishon caused them to suffer from cancer (and other diseases). Dozens of factories and government authorities were also joined as third-party defendants to these lawsuits. During the course of hearing the claims, nine of the plaintiffs withdrew their claims, which were struck out. Because these claims are for physical injury, the plaintiffs are not required to quantify the amounts sought as damages. As at the date of preparation of this report, the damages quantified in the claims amount to approximately NIS 137 million (and approximately NIS 3 million for pending claims which overlap the principal damage, in all approximately NIS 140 million, or approximately \$ 36 million), as valued on the date of filing of the claims, plus linkage differentials and interest from the date of illness or the date of filing of the claim, as well as penal damages and additional costs such as treatments and third party assistance – which, in a small number of cases, were not quantified – fees and costs. Note that this is an arithmetic addition of the sums quantified in the statements of claim, and not a risk evaluation by the defendants nor an evaluation of the risk to which F&C is exposed.

As of the date of this Report, these cases are in the stages hearing evidence. First, the court is deliberating the question of the causal link in the narrow sense, meaning the connection between the substances alleged to have been in the fishing harbor and the plaintiffs' injuries. These actions involve highly complex fact patterns spanning decades and involving over one hundred parties (plaintiffs, defendants and third parties), and constitute a precedent-setting case, both in terms of the nature of the claim and the division of responsibility among the defendants and third parties.

F&C claims that it has good defenses, based on expert opinions presented by F&C and other defendants. These defenses include: (a) a higher cancer rate is not apparent among the fishermen, (b) most of their ailments can be attributed to personal risk factors (primarily the fact that over 90% of the plaintiffs are smokers) as well as natural illness, and (c) the circumstances of the claimed exposure are not known to cause the plaintiffs' diseases.

However, based on the evaluation of its legal advisors, given the factual and legal complexity of these proceedings, the initial stage in which they are at present, and the multitude of parties involved, the Company cannot estimate its exposure with regard to these claims and no reserve has been included in the financial statements.

3. Between 2000 and 2007, a number of claims were filed in the District Court at Haifa against a list of defendants by former soldiers (and their heirs and dependents). The plaintiffs claim that contact with toxic substances in and around the Kishon River caused them cancer and other diseases. As at the date of this report, 23 of the plaintiffs have withdrawn their claims, which have been struck out. As at the date of this report, there remain 89 plaintiffs in court, claiming for 87 soldiers in the sum (nominal, as at the date of submission of the claim) of approximately NIS 267 million (approximately \$72 million) as quantifiable special/general damages, approximately NIS 79 million in dependant damages (approximately \$21 million, some of which overlap with the special damages), and NIS 133.5 million (approximately \$36 million) in

punitive damages (all of these amounts are as at the date of submission of the lawsuit). Because these claims are for physical injury, the plaintiffs are not required to precisely quantify the amounts sought as damages. Other primary damages not quantified in the claim include loss of future livelihood, medical expenses, in some cases loss of salary for years lost from work, etc., as well as interest and linkage differentials, attorneys' fees and costs. The defendants joined third parties including F&C as well as dozens of plants and government entities, including the State of Israel. Note that this is an arithmetic addition of the sums quantified in the statements of claim, and not a risk evaluation by the defendants nor an evaluation of the risk to which F&C is exposed.

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 defenses to the claims described in sub-section 2 above will also serve to defend F&C with regard to these claims. However, based on the evaluation of its legal advisors, given the factual and legal complexity of these proceedings, the initial stage in which they are at present, and the multitude of parties involved, the Company cannot estimate its exposure with regard to these claims and no reserve has been included in the financial statements.

4. The Haifa Rowing Club Association filed a class action under the Prevention of Environmental Hazards (Civil Claims) Law, 5752-1992, in the Magistrates Court in Haifa against a number of plants on the banks of the Kishon River, including against F&C. The Claim called for cessation of the pollution of the Kishon River and for an order to restore the Kishon River to the state it was in prior to the discharge of the waste. Dozens of factories and government authorities, including the State of Israel, were also joined as third-party defendants to these lawsuits. In 2007, the Court struck out the Claim *in limine*. The Court approved the discretion exercised by the Authorities with respect to the grant of pumping permits into the Kishon River, noting the steps taken by the authorities and the defendants to improve the state of the Kishon River, and the considerable improvement in recent years in the quality of the water and in the state of the river. An appeal that was filed with the District Court at Haifa by the Association was struck out on September 23, 2008, with the parties, including the Association, reserving their rights to submit a new claim should there be suitable factual infrastructure for such. It was also held, with the consent of the parties, that if a new claim were to be filed, it would not be possible to make limitation of action claims in it against the existence of the hazard or nuisance (presuming that such is proven).

B. Soil and ground water pollution – Spain

In February 2004 a consolidated company of ICL was informed that a Prosecutor of Environmental Crimes of in Catalonia, Spain, instituted a criminal proceeding in which it filed a brief in the Magistrate's Court in Messarat, Spain, against the former and current managers of an ICL Fertilizers company that operates mines in Spain, claiming that the managers violated local legislation and caused groundwater contamination due to seepage of salt waste from the salt mounds which have been a by-product of the potash plants over many years, in part before ICL Fertilizers acquired the company. An application for an order prohibiting continued dumping of salt was set aside by the Court in 2008. The criminal proceedings against the managers is pending.

4.1.17 Goals and business strategy⁴⁹

A. ICL Fertilizers' strategy is intertwined with the trends in the field of fertilizers and includes the following elements:

1. Expansion of potash production capacity in order to take advantage of the inherent advantages of this market and to participate in this market's growth.
2. Broadening production of phosphate rock for sale in accordance with demand trends on the international market.
3. Broadening production of downstream products based on phosphate rock, while utilizing existing infrastructure and improving utilization of the current plants.
4. Development of the specialty fertilizers field and expansion of its product offering, primarily in the area of soluble fertilizers, while developing new and innovative products and starting to produce products that are not currently products of ICL Fertilizers.
5. Constant improvement of product quality.
6. Compliance with binding environmental standards whilst implementing the best and most available techniques and improving environmental performances at production sites, and throughout all production and marketing processes.
7. Responsible and sensible use of natural resources such as soil, landscape and water.
8. Constant and continual improvement in the field of safety and implementation of a "zero accidents" policy.

B. Principal projects planned or undertaken by the Corporation

1. The Company approved examination of the possibility of increasing the production capacity of potash at Sodom by an additional 1 million tons beyond the increases set out in section 4.1.9A. The cost of this increase is still unknown. It is estimated that the growth options are within the range of 5-8 years.
2. ICL Fertilizers today operates a power plant for producing electricity at Sodom, and purchases electricity from the Israel Electric Corporation.

In October 2007, DSW of the ICL Fertilizer segment received a license to produce electricity via power and heat facilities (co-generation) with a total output of 400 megawatts, replacing a previous license granted in 2006. The license is conditional upon DSW complying with a series of milestones. No decision has yet been made regarding the construction of the power station. At this stage, ICL Fertilizers is looking into the possibility of setting up a power station capable, at the first stage, of production of approximately 250 to 300 megawatts, which should supply the electricity requirements of the ICL Group in Israel, with the option of increasing the power station at a second stage to 400 megawatts.

3. As part of implementation of a strategy of expanding its operations in India, in July 2007, ICL Fertilizers signed an agreement with an Indian partner to set up a joint venture to be held by the parties in equal shares for the production and distribution of special fertilizers in India, on the basis of ICL Fertilizers' technology and agronomic knowledge. Until the joint factory is

⁴⁹ ICL Fertilizers' plans and strategies, as described in this section, reflect the strategies of ICL Fertilizers as of the date of this report, and are forward-looking statements and are based on ICL Fertilizers' projections. These plans and projections may change, in whole or in part, from time to time. There can be no certainty regarding the accomplishment of these plans or the success of these strategies.

set up, the special fertilizers are supplied from the Israeli factory, and by the Nu3 partnership in Belgium. The new factory in India is expected to commence production at the end of 2009.

4. Implementation of projects to prevent and reduce point and non-point emissions into the atmosphere, the construction of absorption systems in various facilities, the construction of waste treatment systems, proper treatment of hazardous substances and responsible management of waste.
5. Conversion of steam boilers and drying furnaces to use of natural gas instead of fuel oil.

6. The Gas Agreement

On March 25, 2008, an agreement was signed for the supply of natural gas (the "Agreement") between DSW and the partners in the Yam Thetys Group for the supply of natural gas to the plants of the ICL Group in Israel.

The total quantity of gas that the ICL Group undertook to purchase from the partners in the Yam Thetys Group under the agreement is approximately 2 BCM (2 billion cubic meters), subject to adjustments as set out in the agreement (the "contractual quantity of gas").

Supply of gas will commence upon completion of the gas transmission pipeline to the South of the Country. As at the date of the report, according to the timetable provided by the transmission company, Natural Gas Lines Ltd., completion of the pipeline followed by conversion for activation for use of gas by the ICL Group's production facilities at Sdom (at which most of the ICL Group's gas consumption is expected to take place) will, apparently, be towards the beginning in the second half of 2009.

Supply of the gas shall end on the earlier of the following (subject to adjustments):

- (1) Five years after the date of completion of the trial period, but not later than September 2015 (subject to the extension);
- (2) Completion of acquisition of the contractual quantity of gas.

The price of the gas has been fixed in accordance with a formula based on the price of fuel oil, with a discount component that includes floor and ceiling prices. The ICL Group has undertaken to take or pay a minimum annual quantity of gas in accordance with the mechanism set out in the agreement.

The total monetary scope of the agreement is estimated at around \$ 260 to 330 million. Conversion of use from fuel to gas will enable the ICL Group to reduce emissions from its production stacks and is part of the ICL Group's policy of preserving natural resources and of savings.

The agreement contains a number of preconditions, the main ones being the obtaining of the permits required to set up facilities to connect to gas and execution of a gas transmission agreement with Natural Gas Lines Israel Ltd. As at the date of publication of this report, the permits have been obtained and the agreement signed.

4.1.18 Matters outside of the ordinary course of business

A. Increase in water level in Pond 150

As part of the evaporation process, salt precipitates into the bed of one of the evaporation ponds at Sodom⁵⁰, in one of the sites of DSW, of ICL Fertilizers. The precipitate salt creates a layer on the pond bed of approximately 20 in height annually. The process of production of

⁵⁰

Pond 150, also known as Pond 5.

the raw material requires that a fixed brine volume is preserved in the pond. To this end, the water level of the pond is raised by approximately 20 centimeters annually.

The Ein Boqeq and Tamar hotels, the town of Neve Zohar and other facilities and infrastructure are situated on the western beach of this pond. Raising the water level of the pond above a certain level is likely to cause structural damage to the foundations and the hotel buildings situated close to the water's edge and to other infrastructure on the western shoreline of the pond, depending on the height to which the water level is raised and the location of the relevant object⁵¹.

The above-mentioned situation requires the establishment of defenses for the relevant objects. Such protections are divided into two stages. The first is the stage of **temporary defenses**, which are supposed to provide protection pending the implementation of a permanent solution. The second stage is that of the **permanent solution** which is supposed to provide protection until the end of the current concession period (i.e. until 2030)⁵².

Temporary defenses: These defenses are characterized by constructing a dike near the relevant hotels together with a system for lowering the ground water, in some places. As part of the treatment of these defenses, which have been carried out for several years, a number of for temporary defenses have been implemented along the western shore of the pond. At present, additional defense alternatives are also being examined for pond no. 5 including the construction of a temporary lagoon and the construction of breakwaters.

As at the date of publication of this report, the assessment is that the permanent solution will not be completed prior to 2015⁵³. Since the existing interim defenses do not provide a solution which will last until that date, this requires the construction of additional interim defenses which shall provide an effective solution until such time as the permanent solution is completed. There is no certainty as to whether the construction of these defenses will finish on the dates required by the height of the level of the pond, since there might be delays flowing, inter alia, from the need to receive the permits required by law (which are subject to complex and lengthy proceedings), and for other reasons. Delays in constructing the interim defenses could cause significant damage to the hotels and/or to DSW.

The issue of defenses (both temporary and those that are part of the permanent solution) is being handled by the government, which has mandated that the Ministry of Tourism coordinate the issue and has declared the protections project a project of national importance. In order to promote the project, in 2008 the State set up a new government company called the Dead Sea Protection Company (DSP).

According to publications by the State, it has allocated sums for effecting additional interim protections, and for feasibility studies on the permanent solution.

Permanent Solution: The State is examining three alternative permanent solutions. **The harvesting alternative** – which is based on harvesting the salt from the pond bed in order to keep the pond level constant; **the lagoon alternative** – which is based on construction of another dike within the pond, which would separate the area near to the hotels, where the water level would remain constant and the precipitating salt would be harvested, from the

⁵¹ As far back as 1971 it was widely known, including to the various authorities, that the water level in Pond 150 was rising annually by approximately 20 centimeters. Most of the hotels signed a document in which they acknowledge their awareness of the rising water level and that they will take this matter into account in the planning and construction of the hotels, and that they will bear the costs of building barriers and they shall have no claim against DSW with respect to the raising of the water level. The Hotels Union claimed, by way of inclusion in the petition to the High Court of Justice, that "these obligations will not affect the grounds for the application for an interim injunction" to prevent increasing the level of the pool, but did not give details of the basis for this claim.

⁵² The division into two stages stems from the fact that no resolution has yet been passed by the government regarding the nature of the permanent solution, and since the level of the pond continues to rise annually by 20 cm, protections are required at the interim stage, until the permanent solution is in place.

⁵³ This assessment is forward-looking information. It might not come to fruition for the reasons set out in this paragraph, including lack of budgets, lack of coordination and organization, failure to receive all of the permits and consents required on time, failure to achieve the defense targets in full or in part, etc.

rest of the pond in which the water level would continue to rise each year. There is also an **alternative of moving the hotels** being discussed.

A decision has not yet been made as to which of these alternatives will be implemented. The feasibility studies are supposed to provide the basis for deciding which alternative will be chosen.

Hotels Union Petition: In 2006, the Dead Sea Hotels Union filed a petition to the High Court of Justice. It requested that the Court order the State: to abandon the hotel removal alternative; to decide which of the other two remaining alternatives (harvest or lagoon) would be implemented; that the permanent solution be completed no later than the end of 2007; and to declare that the hotels would not bear any expense relating to the permanent solution. An interim injunction was also requested prohibiting the raising of the water level in Pond 5 above the level planned for the end of 2008.

The High Court held a number of hearings on the petition. The High Court held that there is a "need for special, constant and unwavering diligence" in handling the matter, and that it is important that budget decisions and statutory processes relating to the temporary defenses and the permanent solution be advanced with the relevant persons taking into account the time factor. The Court, which did not award the requested remedies, left the petition pending in order to receive reports from the State regarding the nature and speed of progress of the defense project.

Financing: Under the Arrangements Law of 2002, half of the financing of a certain portion of the interim defenses was imposed upon the State. The other half was imposed upon DSW, the Tamar Regional Council and the Hotels, in equal shares.

During 2007, the government ruled that the additional financing⁵⁴ required for the interim defenses and for the above feasibility studies would be determined in negotiations that the Ministry of Finance would conduct with the various responsible persons (DSW, the Tamar Regional Council and the Hotels), and in the absence of an agreement, the matter would be resolved by legislation.

As at the date of this report, DSW and the State are in agreement that DSW will bear 39.5% of the costs of the additional financing for the interim stage and the feasibility studies, and that the State, either directly or via the other entities (the Regional Council, the Hotels) shall bear the remainder of the costs⁵⁵. DSW's consent is conditional upon regulations being made by the Minister of Finance with respect to the above. The agreement states that it does not constitute a precedent for dividing the financing for the permanent solution, and that in the event of a dispute between DSW and the State regarding division of the financing burden for the permanent solution, if any, the section relating to dispute resolution appearing in the concession agreement signed by the State and DSW shall be implemented⁵⁶.

Outline Plan – as part of the decision to declare the protection project a national infrastructure project, it was resolved to advance a special outline plan for this purpose named NIP 35. The plan is being led by the Dead Sea Protection Company. According to what is coming to light now, the plan will be divided into two stages – the immediate stage which will include requirements for the coming years and the second stage which will deal with permanent protections. The boundaries of the plan have not yet been set. In addition, the plan also deals with the approval of mining and quarrying sites from which the construction materials required for the protection of the hotels and for requirements of the Company will be taken until the concession period ends. The Ministry of the Interior recently ordered the preparation of an outline plan for the shores of the Dead Sea within Tama 13. DSW participates in the followup committee. At this stage, it cannot be ascertained whether the plan which will be formulated will affect DSW's activities in the area.

⁵⁴ Apart from the financing dealt with by the Arrangements Law of 2002. This additional financing also includes a government budget in the sum of 300 million shekels.

⁵⁵ The Minister of Finance is supposed to make regulations in this regard.

⁵⁶ This section prescribes certain arbitration proceedings.

B. The Dead Sea Water Level and the Sea Canal

The water level of the Dead Sea (its northern section) drops about one meter each year. The decreasing water level is accompanied by a shrinking of the sea area and other phenomena such as creation of sinkholes, underground cavities and deepening of the river courses that flow to the Dead Sea. The falling water level stems from the policies of the Jordanian, Syrian and Israeli governments to utilize the water resources of the Dead Sea catchment area. The extraction of the Sea's salts by plants in Israel and Jordan also contributes somewhat to the drop in the water level in the northern section. According to a study performed on behalf of the government⁵⁷ (the "Default Choice Report"), utilizing the water sources prevents approximately 1.25 billion cubic meters annually of water which used to flow into the Dead Sea from flowing into it, being exploited instead. Maintaining the current depth and surface area of the water would require an additional inflow of more than 700 million cubic meters per year.

In 2003, the Israeli government decided to evaluate a number of alternatives for the future of the Dead Sea, including a sea canal from the Mediterranean Sea to the Dead Sea, a sea canal from the Red Sea to the Dead Sea, restoring potable water inflow by returning a significant portion of the natural water sources, as well as checking the Default Choice - on the assumption that the current situation persists.

At a later stage, the Jordanian government initiated the evaluation of the alternative of a canal from the Red Sea to the Dead Sea. The pilot project is being financed by the World Bank which prepared a document whose purpose is to define the tests needed to be performed prior to reaching a decision. The pilot project is being led by an oversight committee with members from Jordan, the Palestinian Authority, Israel and the World Bank.

In 2008, two international companies were chosen to conduct a feasibility study into the Sea Canal. The testing process will take about two years, and an affirmative decision regarding the project will require the consent of all of the member countries (Israel, Jordan and the Palestinian Authority). DSW is unable to determine how probable implementation of the project will be.

A drop in the water level means that the Company is required to draw the water from a greater depth, which requires investment and increased electricity expenses for DSW. According to the Default Choice Report, it is estimated that even if it will be decided to build a Sea Canal, it will take more than 10 years for its construction to be completed⁵⁸.

Bringing water from the Mediterranean Sea or the Red Sea would impact the constitution of the water in the Dead Sea and the level of evaporation, and therefore the quantity of raw materials that can be produced in the Dead Sea Works' evaporation ponds. It is projected that bringing water from the Red Sea or the Mediterranean Sea would cause a layer of light, low-mineral water to float on the upper level of the sea, the creation of gypsum and development of microorganisms.

The strength of this impact, if any, is dependant upon a number of variables such as – the type of water that would be brought, the annual quantity, the future water level, and rate of precipitation of the gypsum and the creation of the microorganisms. Today, before these impacts have been scientifically investigated and the planning decisions taken, it is difficult to establish the impact of the Sea Canal on production in the evaporation ponds as well as the other environmental impacts in the Dead Sea area.

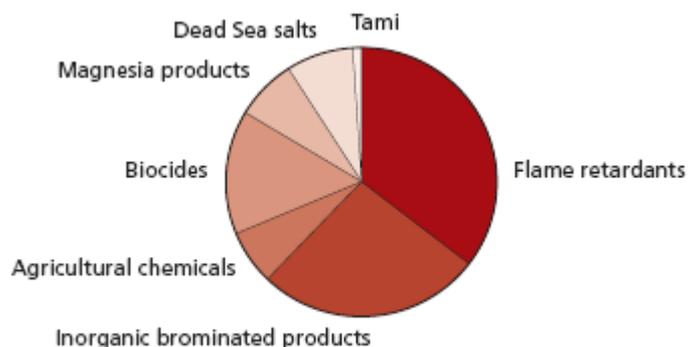
⁵⁷ Policy Paper for the Future of the Dead Sea, March 2004.

⁵⁸ A drop in water level of 15-20 additional meters, is therefore the minimum projection. This is because of the timetable required to understand environmental implications, and collect data, for project planning and approval (specific to a multi-lateral project), raising funds and realizing the broad range of activities required by this matter. See the Default Choice Report, p. 4.

4.2 ICL Industrial Products

The following chart details the external sales⁵⁹ of the Industrial Products business segment according to product areas:

External sales for 2008 – \$ 1,246 million



4.2.1 General Information regarding ICL Industrial Products

A. ICL Industrial Products deals in the development, manufacture, marketing and sale of industrial chemicals, principally based upon bromine, magnesia, chlorine and salts from the Dead Sea and phosphorus and chlorine purchased from third parties. In 2008, the net sales of the Industrial Products segment (including sales to other companies in the Company) totaled approximately \$1,254 million. ICL Industrial Products sales constituted approximately 17.8% of ICL's total sales (including sales to other segments in the Company) in this year. Most of ICL Industrial Products' sales are of bromine and phosphorus based flame retardants, bromine compounds for industrial use and agricultural use, and clear bromine-based solutions for the oil and gas drilling industry. Other products sold by ICL Industrial Products are biocides based on chlorine and bromine for water treatment, products based on magnesia (oxide, hydroxide and carbonate), functional fluids and other products based on the Dead Sea salts. During 2008, ICL Industrial Products used internally approximately 70% of its annual elemental bromine production and sold the remainder in global markets.

B. ICL Industrial Products' major manufacturing facilities are located in Israel in Sodom (production of bromine, Dead Sea salts and bromine compounds), in Ramat Hovav (production of bromine compounds) and in Mishor Rotem (magnesia production) in Terneuzen, the Netherlands (production of bromine compounds), in Germany at Bitterfeld (production of phosphorus compounds) in the United States in West Virginia (one factory for the production of chlorine-based biocides for water treatment, and another factory for production of phosphorus compounds), in China through a joint venture in Liang Yong Yang (production of bromine compounds) and a joint venture in Shan Dong (production of bromine

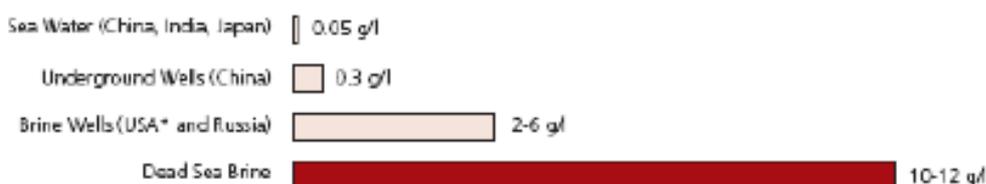
⁵⁹ The term "external sales" refers to the segment's sales to customers outside of the ICL Group (customers that are not other segments of ICL).

compounds), and near Calais, France (production of specialty magnesia products and calcium compounds used as raw materials in health foods) – as shown in the map below: .



Bromine is an element from the halogen family known for its variety of uses in many industries. Bromine is a heavy, volatile, toxic, and corrosive liquid element with a sharp odor and reddish-brown hue. Bromine is used in the production of a range of bromine compounds. Bromine is found naturally in sea water, underground brine deposits and the Dead Sea. Its concentration varies depending upon its source.

The Dead Sea is the source of the most highly-concentrated bromine⁶⁰.



* Arkansas – brine wells of Chemtura & Albemarle

Source: ICL Estimates

** For details of extraction process from Dead Sea brines, see section 4.2.12 below

The feasibility of extracting bromine is the result of a number of considerations: finding a suitable bromine source; the bromine’s concentration; availability of chlorine, which serves as a primary raw material in bromine’s production; availability of suitable production technologies and special means of transportation of bromine and/or bromine compound production equipment that is able to take in the manufactured bromine.

The process for extracting bromine depends on the nature of its source and its concentration. The lower the concentration of bromine in the brines, the harder and more expensive it is to extract.

⁶⁰ The information in this graph is based on the Company’s internal estimates.

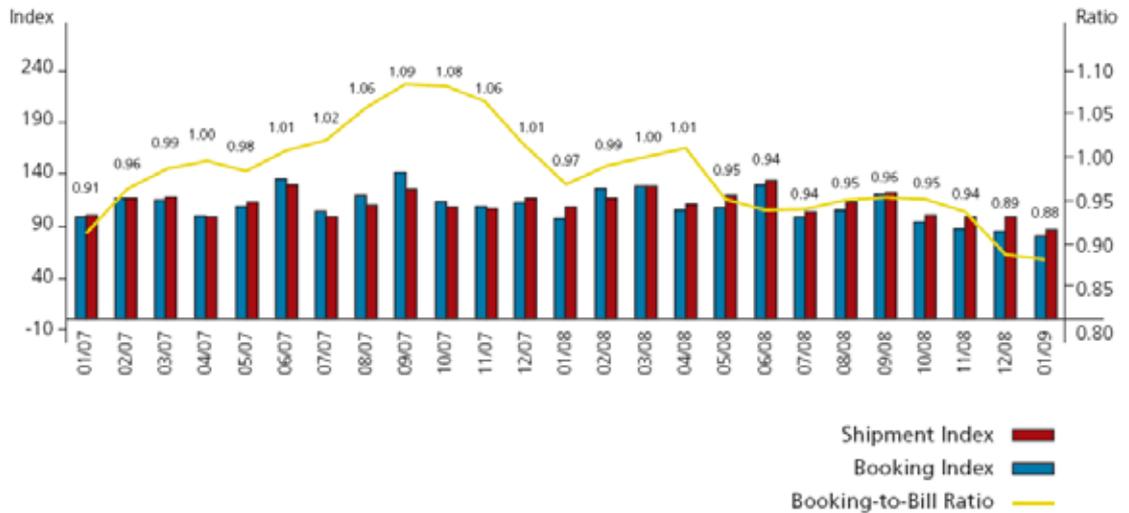
Most of the bromine produced worldwide is used as raw material for compounds with a wide range of uses.

C. The primary uses of ICL Industrial Products' products:

- Bromine and phosphorus-based flame retardants** are part of the polymer additives family and are used in many areas of the electronics industries, primarily for printed circuit boards in the electronics industry, electronic cables and plastic housings of electronic equipment. In addition, flame retardants are increasingly being used in the automotive, construction, furniture and textile industries. .

Below are details the book to bill ratio of semiconductors over recent years:

Hard printed circuit boards – Book to Bill Ratio (3 month average) [



IPC – Association Connecting Electronics Industries February 2009

- Bromine based heavy drilling liquids** (hereinafter: “clear brines”) are used to balance pressure at a certain stage in oil drilling. Use of these bromine-based clear brines is mainly to balance pressures at the end of drilling stage of oil and gas wells with high operating pressures. Use of these bromine-based clear brines around the world is growing due to the increase in oil and gas drilling in various parts of the world, including in new oil fields, such as in Western Africa and the former Soviet Union.

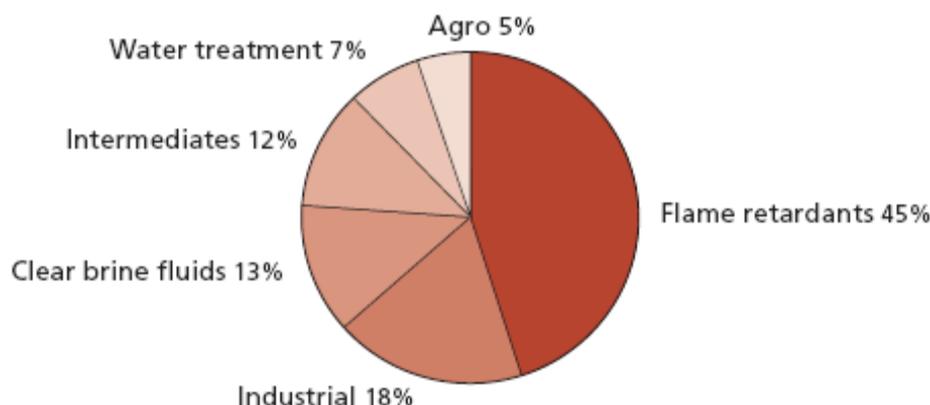
The following chart shows the number of oil drilling rigs operating in the world over time:



Source: Baker Hughes, July 2008

3. **Soil and space fumigation products**, primarily **methyl bromide** which is used for soil fumigation and acts mainly against nematodes (microscopic roundworms) and soil fungus that damage plant roots. In addition, methyl bromide is used in space fumigation against agents that damage stored produce, primarily in dry agricultural produce. Since 1995 limitations have been enacted on the use of methyl bromide (which is suspected of damaging the ozone layer) and quantities used for soil fumigation are decreasing. ICL Industrial Products intends to try to remain active in the field of soil fumigation products by offering a new product that is under development. In addition, ICL Industrial Products will continue to sell methyl bromide for other applications where production and sales quantities are not limited, as well as for “critical uses” in soil fumigation as determined from time to time.
4. **Bromine and chlorine-based biocides** are used primarily for various types of water treatment. Use of these products has grown annually, driven by increased pollution of worldwide water sources and adoption of environmental regulations for purifying and disinfecting sewage. Bromine- and chlorine-based biocides produced by ICL Industrial Products are used in swimming pool and spa water treatment, cooling towers, paper production systems (patented), the cleaning and sanitizing markets, and for disinfecting drinking water.
5. **Calcined and specialty magnesia products** are used in various industries, primarily in the steel transformer industry, rubber, and as a mineral supplement in pharmaceutical and food products.
6. **Salts based on chlorine from the Dead Sea** include primarily magnesium chloride (flakes and pellets), used for de-icing roads and dust control on dirt roads, as well as in the textile and cosmetics industries. ICL Industrial Products manufactures a wide range of types of sodium chloride (common salt) used for food, as salt for water softening, electrolysis for the electrochemical industry, de-icing roads and other uses. Another product is pure potash, which is high-quality potash used for metal coating processes and in the food and pharmaceutical industries.
7. **Functional fluids** – fluids used in lubricants (flame retardants) for use in power stations (gas and steam turbine systems), the field of aviation and industrial systems in which lubricant oils are used for electro-hydraulic systems. In a wide range of these uses, the hydraulic systems work at high pressures and require a high level of safety and avoiding any risk of fire.

Worldwide Uses for Bromine for Production of Bromine Compounds in 2008:



Source: Estimates of ICL Industrial Products

D. General Business Environment and Influence of External Factors

The bromine market is affected by the level of activity in the electronics and oil drilling industries. 2008 was characterized by relatively high sales of flame retardants during the first nine months of the year, and by a sharp drop in the fourth quarter as a result of the global financial crisis. The decrease in sales of DECA flame retardants is continuing and at the same time, demands for products that are DECA substitutes has increased, including for an FR-245 flame retardant which is produced uniquely by the segment.

In the methyl bromide market, the decreasing trend in sales continued due to the restrictions in the Montreal Protocol.

Demand in the oil drilling market continued to be high in the Gulf of Mexico and in other parties of the world, such as the North Sea, West Africa, the Middle East and Asia, which gave rise to an increase in the quantities sold compared with the previous year, whilst preserving high price levels. The supply of chemicals for oil drilling originating in China fell during this year significantly compared with the previous year as a result of an increase in production costs, a drop in export incentives and a drop in the availability of bromine in China.

The prices of most of ICL Industrial Products' products maintained a high level but at the same time, raw material and energy prices continued to increase and this affected costs of production and in particular, the costs of production of magnesia products.

In the field of chlorine-based biocides, ICL Industrial Products continued to penetrate new customers who are closer to the end user. In 2008, one of the manufacturers decided to advance down the supply chain to store level for the sale of swimming pool chemicals thereby causing distributor suppliers to stores which were its customers to move over to other companies, including Clearon. The swimming pool chemicals market was not harmed in 2008 by the effects of the economic crisis. Towards the end of the year, the US Trade Commission updated anti-dumping levies for isocyanurates imported from China into the USA and with respect to the principal Chinese supplier, the levy was reduced to the level of 0.8% compared with 21.6% previously. There was no change in the anti-dumping levy for the other isocyanurate suppliers from China.

In the field of bromine-based biocides, ICL Industrial Products continued to enjoy continued growth in the segments' unique product for treating water at paper plants, and from expansion of sales of bromine- and/or chlorine-based biocides for the treatment of water in cooling towers and power plants.

ICL Industrial Products' products are exposed to competition (for details regarding competition see section 4.2.7 below) and are subject to restrictions in various countries (for details on these restrictions see section 4.2.16). ICL Industrial Products' facilities operate in accordance with environmental protection regulations in their various countries (for details regarding environmental matters see section 4.2.14 below).

4.2.2 Products and Services

The following are the main product categories of ICL Industrial Products:

Principal Products	Primary Applications	Primary End Markets
Bromine-based flame retardants	Flame retardant plastic additives	Printed circuits, thermoplastics, engineering polymers, textiles, foams and rubber
Phosphorus-based flame retardants	Plastics additives for use as flame retardants	Polyurethane foam for insulation, furniture and engineering polymers.
Phosphorus-based functional fluids	Liquid lubricants, flame retardants.	Functional fluids for use in power stations, aviation and industrial systems which use lubricants for electro-hydraulic systems
Magnesium hydroxide-based Flame Retardants	Plastic additives	Cables and additional uses in the plastics industry
Bromine	Raw Material for Industry	Pharmaceutical and rubber industries, Bromine compounds producers and oxidants
Inorganic Bromine Compounds	Photographic paper, chemical intermediates, and oil and gas field fluids	Photography, oil and gas drilling and textiles
Organic Compounds based mainly on bromine	Insecticides, solvents for chemical synthesis and chemical intermediates	Pharmaceutical, Agrochemical, rubber and dyes
Soil and Space Fumigation	Applied to soil and space for pest and disease control	Agriculture, space and quarantine fumigation
Chlorinated and Brominated Biocides for Water Treatment	Chemicals for disinfection and sanitizing drinking water, industrial water and sewage	Pools, spas, cooling towers, industrial water treatments, cleaners and sanitizers and paper plants and disinfection of drinking water
Calcined and Specialty Magnesia and Calcium Carbonate	Magnesia compounds, rubber industry, transformer steel, antacid medication, mineral supplements in food and pharmaceutical products	Chemical, rubber, adhesives, transformer steel, food, nutrient-enhanced products, and pharmaceuticals and drug industry
Dead Sea salts	De-icing and dust control on dirt roads, food industry, chlorine production, cosmetics and catalysts	Municipalities and households, food preservation, water softening, cosmetics and the chemical industry

4.2.3 Detail of Sales and Profitability of products and services

The following is an analysis of the revenue and gross profit according to segment:

	Revenues* (\$ million)	% of ICL Revenues*	Gross profit (\$ million)	% of gross profit as a % of revenues
2008	1,254.2	17.8	373.4	29.8
2007	925.6	22.2	318.6	34.4

* For purposes of this table, revenue figures for the product group and for ICL used in calculation of percentage figures include revenue among business segments.

4.2.4 New Products

- A. ICL Industrial Products is involved in the development of innovative products in its areas of activity and discovery of new applications for existing products. During the period of this report, ICL Industrial Products spent about \$22.5 million on new product development and support and improvement of existing manufacturing processes (see also section 4.2.10 below).
- B. Development of inorganic bromides for neutralization of mercuryMercury emitted to the atmosphere by coal-fueled power stations may cause health damage of ever increasing magnitude. In recent years, there are various legislative initiatives around the world to reduce the level of mercury emissions. In February, 2009, the US announced a change in policy and joined an initiative of about 140 countries to sign a charter for the reduction of mercury emissions. Many technologies have been developed around the world, most of which utilize bromine compounds to solve the problem. A few months ago, ICL Industrial Products launched a new product line, Merquel™, based on inorganic bromides, which together with the technologies mentioned above is targeted to enable efficient neutralization of the mercury to the limits of the standard which the authorities are likely to mandate. Full application of the standards in all the coal-fired power stations would require use of significant quantities of bromine compounds. The potential market for products to reduce mercury emissions could reach hundreds of millions of dollars in the coming years⁶¹. ICL Industrial Products is gearing up to build production and logistics capacity needed for reliable supply to the US market and for other countries which adopt similar legislation.

4.2.5 Customers

A. Dependence on single customer

ICL Industrial Products does not have any single customer that accounted for more than 10% of the total sales of ICL.

⁶¹ The information in this section is forward-looking information. It may not be realized in whole or in part, or to be realized in later years than forecast, because, *inter alia*, of non-adoption of the charter or failure to apply it in various countries through legislation, its postponement or the setting of more lenient transitional standards, as well as the possible development of alternative products or technologies based on other raw materials. There is no way of knowing what ICL Industrial Products' share of this market could be where there are or could arise competing producers.

B. Breakdown of sales according to geographical market

	1-12/2008		1-12/2007	
	\$ millions	%	\$ millions	%
Israel	43	4	45	5
North America	428	34	300	33
South America	272	2	22	2
Europe	410	33	301	33
Asia	314	25	235	25
Rest of World	24	2	16	2

C. Developments that occurred in the geographical areas

In 2008, there was an increase in ICL Industrial Products' sales in North America, Europe and Asia, mainly due to the first time inclusion of Supresta's sales, in the total sum of approximately USD 306 million in 2008 and USD 105 million in 2007 (Supresta was consolidated for the first time as of August 14, 2007). From the fourth quarter, there has been a significant decline in sales of flame retardants as a result of the global economic crisis. The drop in sales is particularly high in South East Asia which is the main market for flame retardants for the electronics industry.

4.2.6 Marketing and Distribution

ICL Industrial Products' principal markets are Western Europe, USA, China, Japan and Taiwan. ICL Industrial Products sells its products primarily through a network of sales offices, agents and distributors throughout the world. Most of ICL Industrial Products' sales are not transacted by means of long-term contracts or orders, but rather via current orders close to the date of supply. Consequently, the concept of a backlog has no meaning for ICL Industrial Products.

In addition, ICL Industrial Products has framework agreements with specific customers, under which the customer can purchase up to previously-agreed maximum quantities of product during the term, on the basis of which the customer issues purchase orders to ICL Industrial Products from time to time. In some of the agreements, sales prices have been fixed, at times with an update mechanism as well. The setting of prices does not have a substantial adverse effect on ICL's results.

4.2.7 Competition

A. Conditions of competition in the industrial products segment and primary competitors

ICL Industrial Products is the world's leading producer of elemental bromine, accounting for approximately 30% of total international production of bromine. ICL Industrial Products estimates that it and its two main competitors, Chemtura Corporation (hereinafter: "Chemtura")⁶² and Albemarle Corporation (hereinafter: "Albemarle"), accounted in 2008 for approximately 72% of the worldwide production of bromine and approximately 60% of the production of bromine compounds. Chemtura and Albemarle produce bromine primarily from underground brine sources in the U.S. Albemarle also has a joint venture with a Jordanian company to produce bromine and bromine compounds. This joint venture that started operations in November 2002 is located on the Jordanian side of the Dead Sea that

⁶²

In 2005 Great Lakes Chemicals Corporation merged with Crompton, a chemical corporation traded in the USA, to form Chemtura, a corporation that operates in the fields of plastics additives, fuel additives, water treatment chemicals and agricultural products. Chemtura is a leading company in the field of plastics additives. In March 2009, Chemtura's request for protection under Chapter 11 was filed.

has access to the same source of raw materials that ICL Industrial Products has. Chemtura purchases bromine and bromine compounds from ICL Industrial Products under long-term contracts. Prior to 2006, Albemarle also purchased bromine under a long-term agreement for one of its facilities. The facility, including the bromine purchase agreement, was recently sold by Albemarle at the end of 2006, and now operates as an independent company. In China, there are more than 100 small manufacturers of bromine which, cumulatively, manufactured approximately one quarter of world-wide bromine production in 2008. Most of the bromine manufactured in China is consumed in the Chinese market. Bromine production in limited quantities is known to take place in India and Ukraine. The segment does not have information about the quantities of bromine produced in these places. Due to the drop in demand as a result of the global economic crisis, bromine production around the world dropped sharply in the last quarter of 2008.

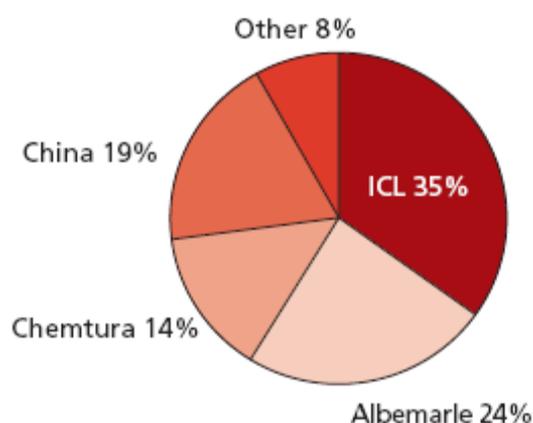
It should be noted that the Dead Sea is a source of relatively low-cost bromine and is considered a practically unlimited source of bromine. Most of ICL Industrial Products' competitors use brines in which the bromine concentrations are relatively low, and which become lower as they are exhausted. In 2007 and 2008, Chinese manufacturers increased the production of bromine from their existing brines whilst exploiting future reserves and/or increasing the costs of future production⁶³. In 2008, and in particular in the fourth quarter, the bromine production in China was lower than in the same period in 2007.

ICL Industrial Products is the world leader of elemental bromine and clear solutions for oil drilling.

ICL Industrial Products also deals in the production and sale of flame retardants and other phosphorus based products. In this field, ICL's principle competitors are Albemarle, Chemtura and a number of Chinese manufacturers. ICL Industrial Products is the world's leading manufacturer of phosphorus-based flame retardants.

In part of the biocide industry, the magnesia industry and the industry for other salts, ICL Industrial Products has a leading position in certain niche products.

Production capacity of bromine manufacturers in 2008



Source: ICL estimates, US Bureau of Mines, Arkansas Oil & Gas Commission publications.

⁶³ The information in this paragraph is forward-looking information. The forecasts are based upon the Company's assessment and may change, in whole or in part, because of changes in the economic and environment in China and worldwide.

B. Approach for tackling competition:

Its relatively low production cost of bromine affords ICL Industrial Products a competitive advantage. Bromine production requires a complex logistical system based on a fleet of special containers (isotanks) specifically designed to transport bromine. One of the advantages of ICL Industrial Products is having the largest fleet of isotanks in the world, which enables it to transport relatively large quantities of bromine around the world. A widespread worldwide marketing network and a range of high-quality products, combined with a technical support system that works closely with customers afford ICL Industrial Products a good competitive position in its target markets. In China, for example, ICL Industrial Products' network includes two production facilities in partnership with local manufacturers, a bromine containers farm, and sales and technical support networks. In the Netherlands, ICL Industrial Products has a bromine compound production facility, which gives it a competitive advantage in Europe. The phosphorus-based flame retardant and functional fluids production plants in the USA and Europe are situated in close proximity to principal customers.

In the field of bromine compounds, competition is characterized by offering higher quality products, development of new products with the aim of meeting market needs, and providing better support services to customers. ICL Industrial Products has long-term relationships with its customers.

4.2.8 Seasonality

At the segment level, ICL Industrial Products operations are not characterized by regular seasonal fluctuations. However, amounts sold of some of its products fluctuate between the various seasons. Agricultural products are characterized by relatively high sales in the second and third quarters. Biocides for swimming pools are characterized by relatively lower sales in the fourth quarter. Salts for de-icing are characterized by relatively higher sales in the first and fourth quarters. The net impact of these diverse seasonal differences on ICL Industrial Products is insignificant.

4.2.9 Production

In 2008, the Company produced 164,000 tons of bromine and 184,000 tons of bromine compounds. ICL Industrial Products is in the process of expanding the potential production capacity of its bromine facilities in Sodom. At the beginning of 2009, investment in expansion of the bromine production facilities in Sodom is expected to be completed, which will increase production capacity to approximately 280,000 tons.⁶⁴

The production of chlorine-based biocides in 2008 was approximately 28,000 tons.

Production of phosphorus compounds in 2008 was 108,000 tons.

4.2.10 Research and Development

A. Research and development operations and results

The principal research and development activities conducted by ICL Industrial Products during the period of this report are as follows:

⁶⁴ The information set out in this paragraph is forward-looking information. It is not possible to know when these expansions will take place, at what rate or with what level of success. Completion of the programs is subject to factors that are outside of the Company's control, and it might encounter technical difficulties or might not be granted all of the required consents.

1. Development of innovative products and substitutes for existing products in the Company's main areas of activity.
2. Searching for new uses for existing products (such as use of sodium bromide and calcium bromide in coal-powered power stations with the aim of reducing emissions of metal mercury from stacks), and looking for new uses for bromine compounds with the aim of increasing the production of bromine from the Dead Sea. The Company has launched a new product line (the Merquel series), which is based on inorganic bromine compounds, which are intended to significantly reduce mercury emissions into the atmosphere at coal-powered power stations.
3. Improving product quality and lowering production costs by changing and improving processes and reduction of use of organic solvents in production processes.
4. Ecologic research for improvement of the wastewater treatment system, reduction of airborne emissions and solid waste.
5. Research in the area of construction materials in order to overcome problems of accelerated wear and tear of building materials, corrosion prevention, equipment adaptation, and tests in accelerated aging.
6. Integration with Supresta's research and joining forces to introduce new flame retardants into the polyurethane field.

B. Research and development expenses

ICL Industrial Products' total research and development expenses for 2008 were approximately \$22.5 million, for which approximately \$0.2 million was received in grants. For the conditions of repayment of these grants, see Notes 24(a)(5) and 27C to the Company's financial statements.

4.2.11 Intangible assets – Patents and trademarks

ICL Industrial Products believes that protecting its intellectual property is one of the ways of protecting and developing its business activities. Its intellectual property is an asset that ICL Industrial Products manages in an active and ongoing manner.

The Company has approximately 301 patents that have been registered over the years and an additional 277 patent applications that are in various stages of evaluation around the world. As at the date of this report, these patents protect a relatively small portion of ICL Industrial Products' products. During 2008, 28 new patent applications by ICL Industrial Products were granted.

4.2.12 Raw materials and suppliers

The following describes the principal raw materials used by the industrial products segment for production of its products:

1. Bromine and its compounds

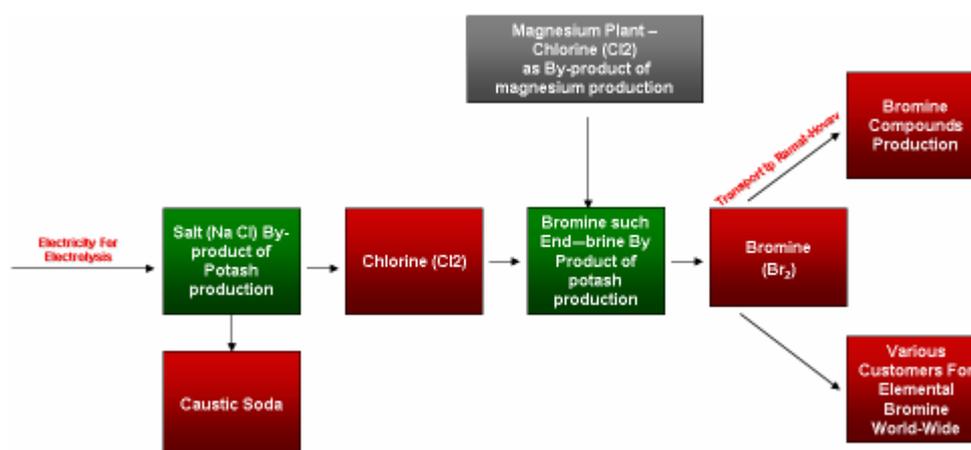
Elemental bromine is produced from the end brines (salt solutions) that result from the processes carried out to produce potash from carnallite. The brine is pumped to ICL

Industrial Products' plant in Sodom, where bromine is produced in an oxidation process using chlorine.

The chlorine is produced by electrolysis of sodium chloride and as a by-product of the magnesium production process of DSM. The electrolysis facility and the magnesium plant are located next to the bromine facility in Sodom. The sodium chloride used in the electrolysis process is a by-product of the potash production in Sodom.

ICL Industrial Products uses elemental bromine to manufacture bromine compounds at its facilities in Israel, the Netherlands and China. ICL Industrial Products sells the balance of its elemental bromine to third parties. Most bromine compounds are manufactured by chemical processes involving bromine together with a range of other raw materials, of which the most important are Bisphenol A, used to manufacture the flame retardant TBBA and phosphorus which is used to manufacture phosphorus-based flame retardants. Furthermore, ICL Industrial Products purchases many other raw materials required for the production of the various products.

The following is a graphic representation of the production process:



2. Magnesia

Some of the brine that remains after the production of potash is rich in magnesium chloride. This brine is pumped to ICL Industrial Products' facilities at Mishor Rotem. At these facilities, in a process utilizing magnesium chloride and other materials, magnesia (magnesium oxide) is produced. The magnesia is further processed into several grades of magnesia.

3. Chlorine-based biocides

ICL Industrial Products produces these products at its facilities in the United States. For production of chlorine-based disinfection products, (biocides), ICL Industrial Products purchases chlorine, urea and caustic soda from local manufacturers and cyanuric acid, to complete the independent production, from Chinese manufacturers.

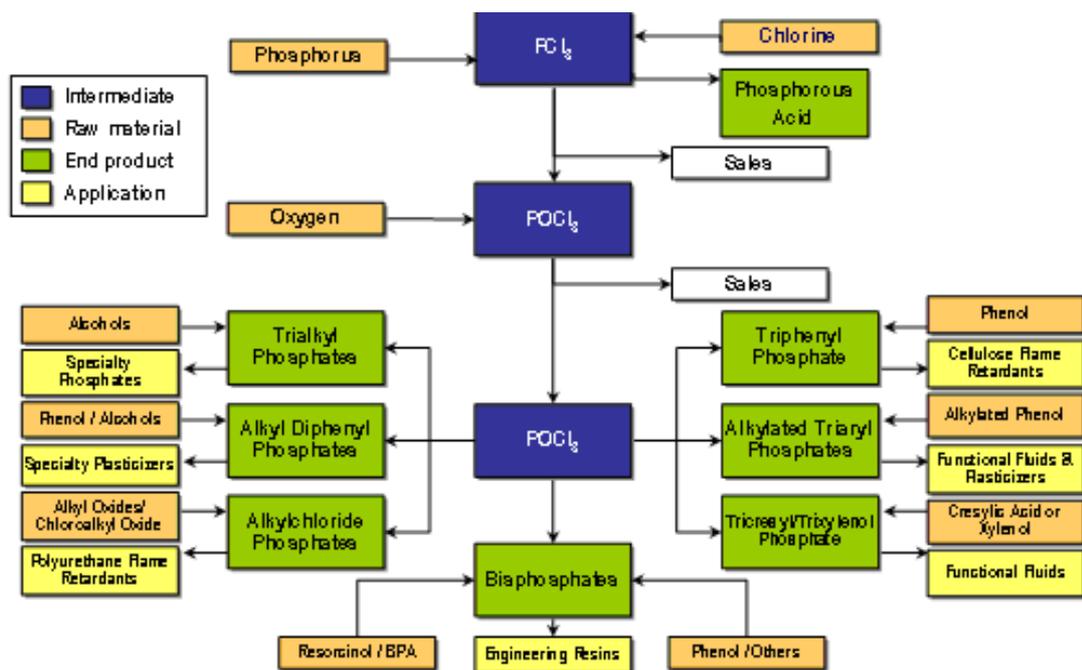
4. Dead Sea salts

Dead Sea salts are manufactured at a facility in Sodom. The production starts from materials and brines produced as by-products of potash production. For example, magnesium chloride flakes are produced from brines rich in magnesium chloride that remain after potash is separated from carnallite. Various types of sodium chloride are also extracted from the salt that remains after potash is separated from carnallite.

5. Phosphorus-based products

Elemental phosphorus (P₄) is produced in a roasting process from ores originating in Eastern Europe (Kazakhstan), the USA or China. Products based on phosphorus are produced in ICL Industrial Products' factories in the USA and Germany. ICL Industrial Products uses elemental phosphorus to produce phosphorus compounds at its factories. The basic phosphorus compound (POCl₃) is manufactured in a chemical process which combines phosphorus, chlorine (usually) and oxygen. The reaction of this compound with a variety of other raw materials (such as propylene oxide or epichlorohydrin) creates the commercial phosphorus compounds.

The following is a graphic representation of the production process:



4.2.13 Working capital

A. Raw material inventory policy

ICL Industrial Products itself produces the bromine used in its bromine compound production and also acquires a small amount of the bromine required for these compounds from China. It acquires the Dead Sea brines used as central raw materials in its production of bromine, magnesia and Dead Sea salts from ICL Fertilizers. Chlorine is acquired from ICL Industrial Products' chlorine facility and in the United States, is purchased on the free market. ICL Industrial Products also purchases raw materials from external suppliers, such as: Bisphenol A, elementary phosphorus, methyl chloride, caustic soda, urea and other chemicals required for production processes among other raw materials.

ICL Industrial Products maintains raw material inventories in quantities that take into account the projected level of production based on consumption characteristics, supply dates, distance from the supplier and other logistical considerations.

As a result of the global credit crisis which began towards the end of 2008 and which has caused a worldwide recession, the segment has begun taking steps to reduce the levels of inventory and to adjust these to expected demand.

B. Finished product inventory policy

ICL Industrial Products' policy is to maintain adequate inventory, which varies from product to product, to ensure orderly supply to customers in consideration of the customers' distance from production centers and their requirements for inventory availability, and in conjunction with optimization of the inventory's storage costs. Therefore, portions of finished product inventories are held in storage facilities in the destination countries.

C. Credit policy

ICL Industrial Products extends credit terms to its clients according to customary practices in their locations. The group's sales are generally covered by trade credit risk insurance or by letters of credit from banks with high credit ratings.

	December 31, 2008	
	Average credit level (\$ millions)	Average credit days
Customers	240	71
Suppliers	95	48

	December 31, 2007	
	Average credit level (\$ millions)	Average credit days
Customers	192	76
Suppliers	93	56

4.2.14 Environmental matters

A. General

During the past few years ICL Industrial Products has focused on research and engineering activities and projects to create new ecological systems and improve existing ones. Under the auspices of the Board of Directors of the segment, a special committee of the Board of Directors for ecological and safety matters oversees ICL Industrial Products' activities regarding environmental quality and directs the segment's environmental policies. Likewise, ICL Industrial Products has an internal compliance program for environmental matters.

In 2008, ICL Industrial Products submitted an environmental report to the board of directors and management of ICL on the activities and investments of the segment in the fields of ecology, environmental responsibility and safety for 2007, and a target plan for the coming years for the principal company in the segment, Bromine Compounds.

The environmental report, which was produced on the basis of international reporting principles (the GRI index) sets out the goals, investments and actual performances of Bromine Compounds in environment-related areas, in full transparency. The report was written in collaboration with many interested parties including a variety of environmental bodies, academics, residents and representatives of local authorities. The report incorporates emphases and updates in accordance with the dialogues with these persons, in recognition of the discourse with the public and placing transparency to the public as an important goal. Adopting a proactive approach, Bromine Compounds chose to publish through the existence of annual environmental report, its goals and the Company's actions to achieve such goals to all interested parties including local communities, environmental and social organizations, government authorities, customers and employees.

Bromine Compounds is a leader and innovator in the chemical industry in the field of environmental reporting. The environmental report that the Company produced is one of the first produced by an industrial company in Israel, and the first of its kind in the large local chemical industry.

The report dealt with presentation of ICL Industrial Products' environmental policy on the basis of the principles of sustainable development, safety, health and environmental responsibility, mutuality, openness, respect and integrity. In addition, the report contains a declaration of the Company's and the CEO's intentions which include focusing on the technological revolution, reduction of emissions and use of waste as a raw material, and an organizational revolution for instilling integrated European systems for the prevention and control of pollution – IPPC.

Under the framework of the Responsible Care program, ICL Industrial Products initiated the establishment of a public forum with representatives of the community and environmental groups four years ago. This is the first forum of its kind established in Israel and based on its success other similar forums have been established. In this forum, the Company presents with full transparency, public education is conducted and information is passed to the general public.

ICL Industrial Products runs a training program for employees on the topic of environmental matters in an effort to raise the Company's employees' awareness of and involvement in environmental matters. This activity includes targeted training for professional teams, focusing on employees on the production floor. In the framework of this training, courses for environmental protection trustees are conducted including environmental quality training in the training packages of the various units.

Below is a list of principal actions taken by ICL Industrial Products:

1. Air Quality

- Investments were made in the production facilities in order to improve recycling of solvents and other organic materials, and absorption via active charcoal, in order to achieve reduction of the amount of these materials emitted into the air.
- As a result of ICL Industrial Products' many activities regarding environmental quality, there was a significant reduction in recent years in the amount of organic solvents emitted from the plants' stacks.
- Investment was made in monitoring and detection systems, in order to ascertain that there are no deviations in the plant's operation and emission systems. Furthermore, these systems were connected to the facilities' production control systems such that before any deviation the facility's production process is terminated.
- For details on the system planned for collecting emissions from stacks, see item C below.
- The bromine and chlorine leak detection system has been expanded.
- Work has begun for the control and treatment of diffused emissions with the assistance of a European company.
- Ongoing work has been commenced by Mishor Rotem factories including Periclas together with the Ministry for the Environment and the Environmental Unit of the Eastern Negev Council to set up a regional air monitoring system. The scope of the system and the investments derived from such are not known at this stage.

2. Wastewater

- In 2008, ICL Industrial Products started operating a new facility in Ramat Hovav for biological treatment of the facilities' wastewater, in which it has invested approximately \$8 million.

Biological wastewater treatment is the most prevalent technology for reducing organically degradable substances in wastewater. The biological treatment is done with micro-organisms that feed on the organic substances found in the wastewater and thereby cause them to substantially decrease in quantity. The process is limited to biodegradable substances. (In this regard see section (b) below).

- In parallel, ICL Industrial Products operates a special laboratory for monitoring and analyzing wastewater quality.
- In 2008, a sanitary facility was activated at the Bromine Compounds factory for the independent treatment of sanitary effluent at the factory. The facility was set up and is being operated by GES (separate license).
- The Company has commenced a planning and licensing process for an independent waste removal system, at an estimated cost of approximately \$ 15 million.

B. Material impact of rulings regarding environmental matters

1. In December 2007, updated business license conditions were issued to the Bromine Compounds plant under which the treatment of effluent will be under the exclusive responsibility of each plant (including the removal stage). Bromine Compounds is required to construct a biological treatment facility, and values were set for effluents coming out of the treatment plants. As of the beginning of 2008, the pumping of effluent into the Ramat Hovav Local Industrial Council's central treatment system is prohibited. ICL Industrial Products disconnected from the Council's effluent treatment system in May 2007, and began treating its industrial waste at a biological facility independently. Under the new conditions of the license, the wastewater from the facilities will be removed to the evaporation pools and holding ponds that are operated and managed by the Council, until the end of 2009. After that date, independent removal systems will be operated under the management of each facility, and wastewater pumping into the current system shall be prohibited. Each facility is to meet the permanent wastewater values by no later than the beginning of 2010 (subject to receipt of all the approvals necessary from the Authorities for carrying out the project). Under the conditions of the business license, Bromine Compounds and the other relevant factories in the industrial zone contacted the authorities and presented a delay of one year in the process of setting up the independent waste removal system due to delays in the licensing process.

Pursuant to the new conditions of the license, the facilities submitted a plan for setting up an independent removal system, and began to conduct a risk survey for the independent removal system including the sediment solids in it.

Under an agreement of December 2006 between the Ministry of the Environment, the Manufacturers' Association, plants at Ramat Hovav (including ICL Industrial Products' plant) and the Sustainable Negev Association, which was authorized by the District Court in December 2007, the Ministry and the plants agreed to commence accelerated negotiations for a period of half a year (which ended in June 2007) regarding air emissions both from new and existing facilities, as well as diffused emissions, and prevention of pollution and odor hazards, on the basis of international standards. In April 2007, the government resolved, as part of a decision to move a conglomeration of IDF training bases to the Negev Junction near to Ramat Hovav, that government ministries would act to improve the air quality around the Ramat Hovav Industrial Zone, in accordance with an outline agreed upon by the Ministry of Health, the Ministry of the

Environment and the Israel Defense Forces. In March 2009, the ICL Industrial Products company that operates the plant at Ramat Hovav received new conditions of the business license relating to air emissions. Under the new conditions of the license, the plant must conduct surveys of emissions of any kind from the plant into the environment. The Ministry will determine the measures to be used for treating emissions and pollution on the basis of the results of these surveys. ICL Industrial Products has begun conducting these surveys. Furthermore, the plant shall be required to treat diffused emissions of substances emitted during the production process immediately. It is not possible to assess what the additional cost of these conditions will be to ICL, if and when they are prescribed.

2. Pursuant to the requirements of the Ministry of the Environment, which were sent to ICL Industrial Products as a draft of the Ramat Hovav business license on December 12, 2004, the facility must treat existing and future waste using one of the following processes: a thermal bromine recovery process, solid stabilization, or removal to suitable treatment facilities that exist outside of Israel. As at the date of this report, these conditions have not yet come into force. ICL has made a provision in its financial statements that it believes to be adequate for the removal of this historical waste. For details of the treatment facility for this waste see section C below. ICL Industrial Products has begun setting up the facility and at this stage, pending operation of the waste treatment facility, the barrels are being stored in a special site, upon coordination with the Ministry for the Environment.
3. In July 2004, an epidemiological study was published by Ben Gurion University, which was commissioned by the Ministry of Health, regarding disease and death rates from various diseases within a radius of 20 kilometers of Ramat Hovav (a chemical industrial zone with 17 plants, among them an ICL Industrial Products plant), compared to other areas outside this radius. According to the survey, in most cases no connection was found between disease and death rates and residence within or outside the radius of Ramat Hovav and residence downwind of the prevailing winds from the site. In some cases, the opposite relationship was found. Regarding some of the diseases that were tested in the survey, a higher rate of disease and death was found in towns closer to Ramat Hovav relative to the control group, while with regard to others, the rate of disease or death was actually lower relative to the control group. The study report notes that during the course of the study other factors among the population that may have been relevant with regard to disease or death were not investigated, and it therefore notes that it is not capable of establishing a causative relationship between proximity to Ramat Hovav and disease or death. In addition, the study did not check the airborne concentration of chemicals in any of the surveyed locations, and therefore it has no evidence to reach any specific conclusion regarding any of the plants in Ramat Hovav.

In February 2008, a report of a Dutch company called DHV was published, which had been commissioned by the Ministry of the Environment. The report set out a theoretical calculation of pollutant concentrations in the Ramat Hovav environs based on results of samples and maximum mass balances, in accordance with stringent assumptions. Based on these calculations, it was found that there is a possibility that substances that the Ramat Hovav plant consumes might reach towns in the Negev in concentrations of more than the reference values published by the Ministry of the Environment as being desirable environmental values (the "Almog Report"). The DHV report does not represent actual concentrations but rather, is only a theoretical calculation. The industry at Ramat Hovav has many objections to the methodology and data in the report. Its position was sent to the Ministry of the Environment, together with a professional opinion explaining why the report reaches incorrect conclusions.

C. Future material capital expenditures for environmental matters

For years, ICL Industrial Products has invested in prevention of environmental harm. During 2008, ICL Industrial Products invested a total of approximately \$24.6 million in the acquisition of property, plant and equipment for prevention of environmental harm and recorded approximately \$18.5 million as a current expense for waste removal and research on issues related to prevention of environmental harm.

In 2009, ICL Industrial Products expects to invest approximately \$23 million in property, plant and equipment and record approximately \$19 million as a current expense for similar purposes. Due to the escalation in environmental protection requirements, the scope of these expenses is expected not to decline in the years 2009 and onward, though there might be an increase which cannot be assessed. The following are the principal facilities which ICL Industrial Products intends to set up during 2009⁶⁵.

- ICL Industrial Products is currently constructing a future facility for treatment both of historical waste and current waste. This facility will carry out thermal breakdown of the waste, restoring bromine from it as HBR so that it can be recovered as a raw material. Construction of this facility is planned to be concluded during 2009. The planned investment by ICL Industrial Products, according to estimates, is around 25 million dollars.

4.2.15 Safety and health

Some of ICL Industrial Products' products, as well as the raw materials and production processes, involve various levels of risks to persons who might be exposed to them. ICL Industrial Products must comply with the safety and health standards and requirements prescribed, in part, under local law, and in part under international and local standards. There is a trend towards new and stricter requirements, as a result of which, various investments might be required.

ICL Industrial Products is continually making special investments in safety and health measures, with the aim of preventing accidents and whilst continually taking care of employees in the segment, and of persons in and around the facilities and products.

The board of directors of ICL Industrial Products, the safety committees in the segment and the committees that operate at the facilities, periodically examine safety achievements and events, and the extent to which targets set in light of ICL's safety policy are met. In 2008, the ICL Industrial Products' Safety Committee met ten times. ICL Industrial Products has a compliance program in the field of safety and health, and has internal checking processes for ensuring compliance with legal requirements and with ICL's own requirements.

The facilities at Ramat Hovav, Sodom and Mishor Rotem in Israel have been certified under Israeli standard 18001, and Bromchemie in the Netherlands has been certified under OSHA 18001.

ICL Industrial Products has a training and compliance program for encouraging a high and uncompromising level of awareness of issues of safety and health among its employees and suppliers, including programs such as *Nassah* (Operative Risk Management). Safety and health goals are set periodically, with the aim of constantly improving safety and health goals, and implementation of such with the aim of achieving zero accidents. Employee protection means include, *inter alia*, protections on equipment and facilities and at work sites, updated written information about all of the materials that are used in the factories, protective measures for employees, procedures and training, appointing safety commissioners and safety teams, and investigating accidents and near-accidents.

⁶⁵ The information set out in this paragraph regarding expected costs to ICL in 2008 and following is forward-looking information in respect of which there is no certainty as to whether it might occur or to what extent. Its occurrence depends on developments in legislation and delegated legislation, standards that might be adopted and the policy of the Ministry for the Environment, locating technology and adjusting it to industrial applications, etc. Construction, planning, cost and timetables of construction of the facilities might change, either due to the requirements of authorities, due to detailed plans or as a result of other or updated technology and methods that might replace or add to those intended for use at present.

In the area of industrial health, there is an industrial health and preventative medicine administration system which includes, *inter alia*, periodic checks for employees, employment environment monitoring and risk assessments with respect to raw materials, products and processes in facilities.

The segment is responsible for ICL's program for dealing with exceptional incidents in the transportation of dangerous substances.

4.2.16 Limitations on and regulation of the Corporation

A. Subjection of activities to specific laws

Following is a brief description of restrictions in law or legal arrangements, related to the operations of the corporation, which could have significance implications for ICL.

1. Sub-concession

The Bromine Company is the holder of a sub-concession granted under the Concession Law. The primary concession granted by the Concession Law is held by DSW (for details regarding this concession see section 4.1.15 above). This sub-concession was granted to the Bromine Company in 1962 and as of today, is valid until 2030.

Pursuant to the sub-concession:

- DSW grants the Bromine Company a sub-lease with respect to areas used by the Bromine Company.
- The Bromine Company has the exclusive right to extract bromine and bromine compounds from the Dead Sea.
- The Bromine Company's receipt from DSW of concentrated brine used for its extraction of elemental bromine is provided for.

For the Accountant-General's claims regarding calculation of royalties, see section 4.1.15 above.

2. Limitations on the use of bromine-based flame retardants

In various countries of the world a review is being conducted regarding possible limitations on use of bromine-based flame retardants. Below are details resulting from the main proceedings known to the business segment as of the date of this report:

Europe

- HBCD - HBCD was defined under new regulations for REACH chemicals as a substance of very high concern (SVHC) which means a non-biodegradable substance that accumulates in tissue and is toxic (PBT). As a result of this decision, HBCD was included in the authorization candidate list. Later on, if the European Chemicals Agency (ECHA) decides to include this substance on its priority list, approval for use in

specific applications will be considered if, on the basis of a socio-economic evaluation, it is proven that the need for the product for a particular use is greater than the risk, and that there are no alternatives to using the product. The results of the approval process are expected in 2012 at the earliest.

HBCD was proposed for discussion as a substance with POP characteristics (Persistent Organic Pollutant) at two UN conventions that discuss these matters. At the UNECE convention in December 2008, it was resolved to commence the discussion on HBCD in order to determine whether the product was suitable for definition as a substance with POP characteristics. On the other hand, at the UNEP convention (known also as the Stockholm Convention), it was resolved to defer commencement of the discussion until October 2009. At both of these conventions, the process of passing a final resolution will take a number of years.

In 2008, sales by ICL Industrial Products of HBCD amounted to approximately \$20.3 million.

- The process of regulating the bromine-based commercial flame retardant deca bromo diphenyl oxide or DECA, which is one of the flame retardants in common use on the market has ended. At the end of the process, it was determined that there is no need to take any additional steps with respect to DECA, beyond those already being taken in terms of safety regarding exposure to humans and the environment. Notwithstanding the above, the court of the European Union ruled, at the application of Denmark and the European Parliament, that the ruling that there is no need to take further steps as aforesaid which was given for DECA did not pass the ordinary process and therefore the court cancelled the ruling. As a result of that, so long as no contrary ruling is made, the product may not be used in Europe in electrical and electronic uses, as of July 1, 2008. Despite manufacturers' efforts, the Ministry of the Environment for the European Union decided, in December 2008, to leave the prohibition against use of DECA in electrical and electronic uses in place. This restriction does not prevent continued free use in other applications such as construction and textiles.
- The government of Sweden, which had prohibited use of DECA in textile products, furniture and cables, effective as of January 2007, cancelled this prohibition in May 2008.
- Norway changed its initial notice to impose restrictions on 18 industrial chemicals, including several brominated flame retardants. Following industry activity, the list was shortened to 10 substances and the flame retardant HBCD is one of them. The flame retardant DECA is prohibited for use in Norway other than for transportation uses.

USA and Canada

A number of state legislatures in the United States were considering draft legislation in various stages regarding bromine-based flame retardants.

With respect to the DECA flame retardant – there are proposals to impose restrictions and to label products containing DECA and to prohibit use of it in the future. In the States of Maine and Washington, there are restrictions on the use of DECA in certain products. ICL Industrial Products has other products that could be used as substitutes for some of DECA's uses. DECA sales are not substantial to ICL. In 2008, the scope of sales of DECA by ICL Industrial Products amounted to approximately \$ 46.3 million.

3. The Montreal Protocol

With respect to the Montreal Protocol, which deals with substances that deplete the Ozone Layer (hereinafter: the "**Montreal Protocol**"), to which Israel is a party, (and which was also adopted in internal Israeli law in the Dangerous Substances (Implementation of the Montreal Protocol regarding Substances that Harm the Ozone Layer) Regulations, 5764-2004), the

production and consumption of methyl bromide for soil fumigation and the fumigation of merchandise and crops not for quarantine purposes or pre-shipment, are being reduced to total cessation in the future. The reduction in the quantity of sales following implementation of the provisions of the Montreal Protocol is not substantial to ICL.

Methyl bromide has other uses which are defined as exempt uses which are not restricted as to production and consumption quantity, including pre-shipment and quarantine treatment, and use for production of other materials, the methyl bromide being consumed in its entirety during the process of production of the other material (feedstock).

ICL Industrial Products intends to remain active in the field of soil fumigation even after use of methyl bromide is prohibited as noted above. Therefore, in recent years, ICL Industrial Products has dedicated efforts to develop substitute products and products complementary to methyl bromide in this market.

B. Business License

The sites on which ICL Industrial Products' plants operate have valid business licenses in accordance with legal requirements. In addition, each of the sites at which ICL Industrial Products factories operate has a valid toxic substance permit under the Hazardous Materials Law (1993), which is renewed from time to time. The Bromine Company's factories at Sdom and Mishor Rotem have a valid permit for pumping wastewater into the Dead Sea under the Prevention of Sea Pollution from Land-Based Sources Law (1988) which is renewed from time to time. The costs of renewing the license are not substantial, in and of themselves.

C. Product Regulation and Registration

The following is additional information regarding limitations and regulatory supervision on the activities of ICL Industrial Products:

1. Insecticides (including soil fumigation) – In most countries of the world, this material and any product containing this material, must be registered prior to import or sale in that country. Sale is restricted according to the level of hazard (disease / organism) and the crop / yield for which the permit was granted in that country. The permit is generally for a limited time and needs to be renewed in order to continue selling.
2. Water treatment (biocides) – In a number of countries, this material and any product containing this material, must be registered prior to import or sale in that country. Sale is limited to those commercial uses for which the permit is received in a given country. The permit is generally for a limited time and needs to be renewed in order to continue selling. In 2000, the Biocide Directive went into effect in the EC, which requires licensing of every new biocide before it starts to be sold, and also implemented a process of re-licensing every biocide on the market. In 2008 ICL Industrial Products submitted files for renewing licenses for existing biocides for uses in industrial water and in water in paper mills. In this way, the process of submissions for licensing of all of the segments biocides was completed. Under the Directive, during the course of the licensing process, it is permitted to continue selling the products for the uses sold to date, on condition that a licensing file is submitted for the use and for the active substance in the product.
3. Chemicals – In some countries of the world (such as the USA, Canada, Japan, Korea, China and others), chemicals may be sold only after registration and authorization by the

authorities. Trade restrictions for use apply to some of the products of Bromine Compounds stemming from the requirements of international treaties. ICL Industrial Products registers the products that it develops and sells as required under local laws.

4. Montreal Protocol – An international accord that imposes supervision and limitations on production, see section 4.2.16(a)(3) above.

5. European Chemical Registration (The REACH Directive) – a statute covering the framework for licensing and evaluation of chemicals in the European Union (known as “REACH”) came into force as of June 1, 2007. The statute applies to chemicals already on the market, as well as to new chemicals. Pursuant to this legislation, manufacturers on the common market and importers of chemicals or of chemicals that are contained in certain products shall be required to submit dossiers contain detailed information of every substance or chemical compound manufactured in or imported into Europe, in quantities of more than one ton per year (the amount and content of the information depends on the volume of production and/or sales in Europe, and the nature of the product in terms of its effect on health and the environment). Some of the products will undergo risk evaluation based on the information that is submitted, and others will only be able to be sold in the future under an appropriate permit. Such a permit will only be granted on the basis of quantified evidence relating to management of the product with regard to health and environmental aspects, the lack of appropriate alternatives, and a socio-economic evaluation. Certain enduring, environmentally toxic substances, will only require permits based on a socio-economic evaluation and on condition that an alternative development plan is submitted, in order to encourage a transition to use of less hazardous substance.

The statute is being implemented gradually, between 2008 and 2018, under the supervision of the new European Chemicals Agency (ECHA).

Implementation of REACH is causing ICL additional costs in the field of licensing, control and implementation of product stewardship programs with customers, and might increase the prices of raw materials. Another possible risk caused by REACH legislation is reduction in usage of a product / material, or removal of certain products from the European market. Likewise, there will be products and compounds that require investment in alternative research and development due to the need to remove certain components from the European market. ICL Industrial Products has begun implementing the provisions of this statute.

During the second half of 2008, ICL effected preliminary registration for hundreds of substances under REACH requirements. This preliminary registration enables continued production in Europe at ICL’s factories as well as sale of such substances in Europe, even during the course of the licensing process referred to above.

ICL Industrial Products is participating in the process of getting ready to submit license applications for dozens of substances in the context of the timetable set out in the Law. The first date is by the third quarter of 2010.

D. Standards and Quality Control

ICL Industrial Products has a comprehensive and advanced quality control system. There are no binding standards and each company in this business segment has its unique aspects (described below), but there are three central common issues:

- All of them (apart from Clearon) have ISO 9001 management certification;

- All ICL Industrial Products plants in Israel and its plant in the Netherlands are participants in the international Responsible Care program.
- In addition to the above:

The research and development, engineering and information systems units of ICL Industrial Products also have ISO 9001 design certification. The analytical laboratory of the research unit also has ISO 17025 certification for eight effluent testing methods.

The plants in Ramat Hovav, Sodom and Bromchemie have ISO 14001 management certification for environmental quality. The plants at Ramat Hovav, Mishor Rotem and Sodom in Israel, and Bromchemie have IS 18001 safety management certification. The phosphorus-based product production plants (Supresta's products) in the USA and Germany have ISO 9000 safety assurance certification and ISO 14001 environmental management certification.

The Bromine Compounds company has adopted advanced quality control methodologies such as: deployment of quality improvement teams, Six Sigma, information management; HACCP (Hazard Analysis Critical Control Point), which is a methodology adopted in order to prevent intrusion of contaminants into a product. Also, its main facilities have a comprehensive system of internal quality checks, in which there are also various competitions between units.

The magnesia plant complies with GMP-13 criteria for livestock (Good Manufacturing Practice). The plant has received HACCP certification from the Israel Standards Institute and has also been certified for GMP for food by the Israeli Ministry of Health. The plant has passed an FDA audit in order to be in compliance with the requirements of pharmaceutical GMP, and has been awarded certification for this standard by the Israeli Ministry of Health. The plant has IS 18001 certification and ISO 14001 certification.

ICL Industrial Products' research institute, which provides research services to other ICL segments as well, has an advanced quality control system which has ISO 9001 certification. Both of the Company's laboratories are certified under ISO 17025 laboratory certification. In addition, both of the laboratories meet the GLP (Good Laboratory Practice) criteria. The research institute also has a quality system that complies with the GMP requirements for pilot and mini-pilot programs, in accordance with customer needs. The research institute also has ISO 14001 management certification for environmental quality. The plant has ISO 18001 certification.

The business unit for Dead Sea salts has ISO 14001 management certification for environmental quality as well as IS 18001 safety management certification and has GMP certification for food by the Israeli Ministry of Health in its pure potash production facility. The pure potash facility received HACCP certification.

E. Internal Compliance

ICL Industrial Products' companies have a code of ethics and an internal compliance program regarding: sexual harassment, restrictive trade practices, securities law, safety and ecology, and prevention of smoking in the workplace.

4.2.17 Legal Proceedings

A. Plantation workers' claim

Beginning in 1994 three subsidiaries within ICL Industrial Products (hereinafter in this section: the "**subsidiaries**") were joined in a lawsuit as third-party defendants by American companies that had been sued in the United States and other countries by approximately 30,000 plaintiffs from various countries including countries in Central America and the Caribbean. The plaintiffs mostly worked as plantation workers and they claim to have been injured by exposure to chemical substances produced by a number of manufacturers, including large chemical companies, and supplied to banana growing companies (together, the "**defendants**"), over the course of approximately thirty years (1960-1990). All of these claims are for bodily injury and therefore, the sums are not set out in the statements of claim.

During the period when these proceedings were being held, most of the plaintiffs arrived at a settlement with the defendants. The subsidiaries are mentioned, under the settlement, as a party included in the release from the above plaintiffs, despite not having contributed to them financially. In the assessment of ICL Industrial Products, the amount of material supplied by the defendants to the relevant countries, and during the relevant period was, if at all, small in proportion to the quantity of material supplied by other manufacturers.

As at the date of this report, two claims filed by, apparently, eleven (11) individual plaintiffs to which the consolidated subsidiaries are a party (together with other defendants) are pending in the courts in the USA. These claims were filed as class actions but the application to approve them as such has not yet been heard.

The Company is unable at this stage to assess if and to what extent the subsidiaries in the segment are exposed to liability in these proceedings, due to the uncertainty involved in the proceedings, and therefore, no provision was made in the financial statements in respect of them.

However, in the opinion of management of the Company, based on the assessment of ICL according to the evaluation of its legal advisors, it is unlikely that if any of the claims against the consolidated subsidiaries is upheld, the sum awarded against the consolidated subsidiaries will be greater than \$ 10 million.

In November 2007, the Los Angeles Court handed down a ruling in the claim of 12 plaintiffs from Nicaragua against the defendants therein. The jury upheld the claim of six of the plaintiffs, and dismissed the claims of the others. Compensation was awarded to the six plaintiffs in whose favor the ruling was handed down in the total sum of approximately \$ 3.3 million. The subsidiaries were not a party to these proceedings.

B. Class action regarding claims of hazardous substance emissions

A claim and motion to certify it as a class action was filed with the District Court in Beer Sheva in November 2007 against Bromine Compounds Ltd., a company in the ICL Industrial Products segment. The plaintiffs claim that the defendant's factory emitted hazardous substances into the air. According to the plaintiffs, the defendant must pay Negev residents "financial compensation for harm to autonomy of will and for imposing a health hazard" and to provide "a fund for medical observation purposes". The sum claimed in the class action is NIS 1,086 million. In ICL Industrial Products' assessment, based on the opinion of its legal counsel, the chances that the motion to certify will not be approved are greater than the chances that they will be approved.

C. Claim in tort for alleged emission of dangerous substances

Three claims were filed with the District Court at Beer Sheva in March and June 2007 against the State of Israel and the Industrial Local Council at Ramat Hovav, in whose jurisdiction the Ramat Hovav factories operate, including the factories of ICL Industrial Products. The plaintiffs claim that various kinds of contamination in the region of Ramat Hovav have caused the illnesses that they are suffering from. The claims sue for sums for treatment expenses incurred by the plaintiffs, as well as compensation for pain and suffering, distress, and penal damages. The plaintiffs are suing for a total sum of more than NIS 238 million.

In May 2008, the Local Council filed a third party notice against a number of factories at Ramat Hovav, the Israel Electric Corporation and the factories of ICL Industrial Products. In December 2008, the State also filed a third party notice against the same factories. The notices alleged that if the council or the State are held to be liable to compensate the defendants [sic], then the obligation to compensation must be imposed upon the factories, or they must be required to indemnify the council or the State for any compensation that they are required to pay to the plaintiffs.

The claim is in very initial stages and at this stage, ICL is unable to assess the chances of success of the claim nor the extent to which ICL Industrial Products is exposed to compensating the plaintiffs, compared with the rest of the defendants, however, it would appear that the chances of the claim being upheld in full against all of the parties and imposition of the entire sum of the claim on ICL Industrial Products are low.

D. Criminal Indictment

In November 2008, a criminal indictment was filed against ICL Industrial Products factory at Ramat Hovav and a number of directors, for offenses of breach of conditions of the business license under the Business Licensing Law, 5728-1968, causing strong or unreasonable air pollution and causing strong or unreasonable odors under the Prevention of Hazards Law, 5728-1968.

The charges of breach of the conditions of the business license and causing air pollution are based on three incidents which took place in 2004, in which samples were taken from the factory and apparent deviations of DCM and volatile organics were found.

The charge for causing odors is based on a single sample taken at Beer Sheva.

The hearing of this file has not yet begun.

4.2.18 Business Goals and Strategy⁶⁶

A. The following sets forth the primary goals and business strategy of ICL Industrial Products:

1. Grounding and reinforcement of ICL Industrial Products' commercial standing in China in the market for elemental bromine, bromine compounds and phosphorus based flame retardants, in reliance on the production and marketing infrastructure setup in China in recent years as well as other investments that have been approved.
2. Increasing vertical integration among the segment's operations (chemicals for swimming pools and chlorine salt products) by establishing appropriate distribution channels.
3. Development of new uses for existing products.

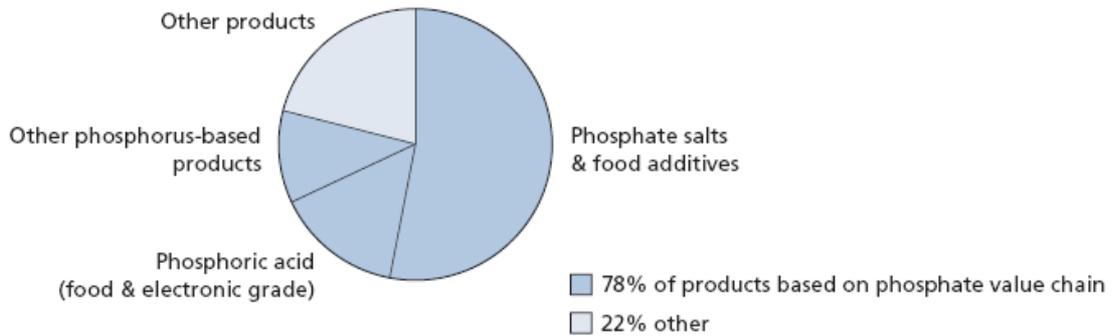
⁶⁶ ICL Industrial Products' plans and strategies, as described in this section, reflect the strategies of ICL Industrial Products as of the date of this report, are based on the projections of ICL Industrial Products as of the date of this report, and are in part forward-looking statements. It should be noted that if the Company's projections or strategies change regarding its area of activity, legislation and regulation or requirements of the authorities, these plans and projections may change, in whole or in part, from time to time and that there can be no certainty regarding the accomplishment of these plans or the success of these strategies.

4. Raising the proportion of specialty products in the mix of products sold by ICL Industrial Products.
5. Combining bromine based flame retardants with phosphorus based flame retardants in order to achieve a competitive edge for the company and its customers.
6. Maintaining current products while gradually adapting them to changing regulatory requirements, which change from time to time.
7. Achievement of operational excellence and improvement of competitive capability through operational efficiencies throughout the supply chain.
8. Development of new market-specific products and applications containing bromine, so that they may serve as growth engines for increased worldwide demand for bromine.
9. Examination of mergers and acquisitions of companies in the industry, including the option of expanding horizontally.

4.3 ICL Performance Products

The following chart details the external sales⁶⁷ of the ICL Performance Products business segment according to product:

Total external sales for 2008 – \$ 1,480 million

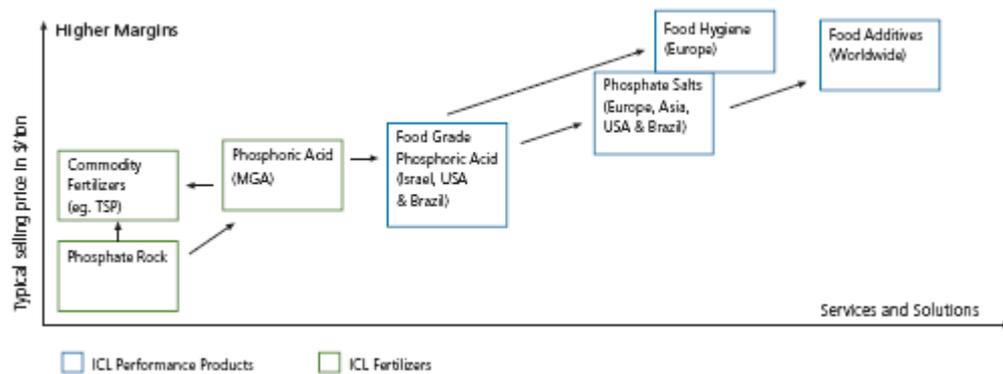


4.3.1 General information regarding ICL Performance Products

- A. As part of ICL Performance Products' operations, ICL's strategy of increasing its production of downstream products with higher added value is implemented. ICL Performance Products develops, produces, markets and sells a broad range of phosphate-based and alumina-based products and other industrial performance products. In 2008 ICL Performance Products revenues totaled approximately \$1,543 million (including sales to other business segments at ICL), representing approximately 21.9% of ICL's revenues in that year. Approximately 80% of ICL Performance Products' external sales are of phosphoric acid of various grades (technical, food, electronics and poly phosphoric acid) and its downstream products. These products are based partially on phosphate rock that is mined by ICL Fertilizers in the Negev Desert in Israel and partially on phosphorus (P4) and phosphoric acid that is purchased from third parties.

⁶⁷ The term "external sales" refers to the segment's sales to customers outside of the ICL Group (customers that are not other segments of ICL).

The following chart describes how ICL Performance Products is part of ICL's strategy to manufacture downstream products with higher added value based on phosphate rock:



ICL Performance Products are designed for a long list of uses and industries, and primarily for the food, detergent, metallurgy, electronics, footwear, paper and metallurgy industries and for water treatment, for the concrete industry and fire retardant worldwide.

- B. In November 2005, ICL Performance Products acquired substantially all of the assets and operations of ASTARIS LLC in North America and Brazil. The acquired operations complement the activities of ICL Performance Products prior to the acquisition and represent many synergies with current activities. In July 2005, ICL Performance Products acquired Adicor, a Brazilian company. Adicor produces and supplies additives to the food industry in Brazil. Towards the end of 2006, ICL effected a reorganization of management in the Performance Products sector. A CEO was appointed for this segment whose office is in North America. Managers were also appointed for the various geographical units and areas of operation within the sector. This reorganization was part of the process of merging the operations acquired from Astaris into those of the Group.

At the beginning of 2008, ICL Performance Products purchased operations for treatment of water using specialty chemicals from the German Henkel Corporation.

- C. Part of the operations of the Performance Products segment is in the field of fire retardants for forests and open spaces (the fire safety field), mainly in the USA. Fire safety products are used against fires, mainly, in forests and open spaces, whilst the fire is burning, by spreading the products using aircraft. In 2007, ICL Performance Products acquired the assets and operations of a company called Fire-Trol, which operates in this field and has a significant presence in North America. This acquisition is a strategic acquisition for ICL Performance Products in the field of fire safety, in geographical terms, as well as with respect to the products that the Group offers. In addition, ICL Performance Products purchased the French Biogema, thereby reinforcing its position in the fire safety field in Europe.

- D. The activities of ICL Performance Products are divided into the following categories:

1. **Pure Phosphoric acid (technical grade, food-grade acid, electronics-grade acid and poly phosphoric acid)** – ICL Performance Products is one of the world's leading manufacturer of pure phosphoric acid. The Company manufactures and markets phosphoric acid of varying grades, primarily for the food industry. ICL Performance Products' product mix includes specialized acids with high added value that are used in the electronics and construction industries.

2. **Phosphate salts and food additives** - ICL Performance Products manufactures and markets products with high added value, including phosphate salts, produced in Germany, the United States, Brazil and China, which are primarily based on phosphoric acid. These products are designed for diverse uses, including treatment of metals, detergents, toothpastes, food additives and others. ICL Performance Products mainly uses phosphate salts that it produces as raw material to manufacture food additives in many countries. ICL Performance Products' food additives target the processed meat, fish and seafood markets, the cheese and milk products markets and the baked goods industry.
3. **Other phosphate- and phosphorus-based products** – The primary market for these products are:

Hygiene products - a range of disinfectant and cleaning materials for various uses in the foodservice industry, including products for cleaning dairies, farms, industrial kitchens and other types of food facilities. ICL Performance Products maintains manufacturing facilities in France, Germany and Austria. Some of these products are based primarily on pure phosphoric acid that is produced in Israel.

Fire prevention and retardant products – the Company is one of the world's leading manufacturers of phosphate-based fire retardant products, which are used primarily to fight forest fires. These materials are produced in the United States. As set out above, during 2007, two new businesses were purchased in this field (Fire-Trol in January 2007 and Biogema in a transaction that was completed in January 2008).

P₂S₅ – is used as a primary ingredient in lubricating oil additives and insecticides.

4. **Other Products** - ICL Performance Products manufactures a wide range of products that are not phosphate-based. Among these are the following products:

Thermoplastic products (Rhenoflex) - ICL Performance Products develops, manufactures and markets unique, environmentally-friendly, patent-protected thermoplastic products for reinforcing the front and rear of shoes and production of other leather goods such as handbags, briefcases, etc. Thermoplastic materials are plastic materials that can be molded with heat. Among ICL Performance Products' customers are some of the leading manufacturers of quality footwear in the world. Production facilities are based in Germany and China.

Chemicals for Water and Paper (APW – Alumina Compounds, Paper & Water chemicals) – ICL Performance Products manufactures and markets a wide range of alumina compounds and other chemicals (polymers) for the paper industry and other industries, cement additives and chemicals for treatment of industrial and drinking water. Production facilities are based primarily in Germany. As set out above, at the beginning of 2008, ICL Performance Products purchased operations for treatment of water using specialty chemicals from the German Henkel Corporation. This activity is in combination with ICL Performance Products' existing activity, and extends it.

Pharma-Cosmetics-Gypsum (PCG)- ICL Performance Products manufactures and markets raw materials and products for the pharmaceutical and cosmetics industries and also manufactures synthetic plaster for the medical, dental and hobby industries. Production facilities are based in Germany and China.

- E. ICL Performance Products manufactures its products mainly in its facilities in Germany, the United States, Brazil, France, China, England, Argentina, Austria and Australia. In Mishor Rotem in Israel, ICL Performance Products manufactures pure phosphoric acid by means of purifying fertilizer-grade phosphoric acid produced by ICL Fertilizers. Likewise, ICL Performance Products manufactures “thermal” phosphoric acid in the US by utilizing elemental phosphorous and the segment also purchases purified phosphoric acid from third parties.

ICL Performance Products’ plants outside of Israel utilize raw materials obtained from the ICL Group’s operations in Israel and other sources. For details regarding ICL Performance Products’ products see section 4.3.2 below.

The global distribution of ICL Performance Products’ production facilities is as follows:



F. General Business Environment and Influence of External Factors

Most of ICL Performance Products’ products are affected, to a considerable extent, by the global economic situation. The general global economic recovery up to the end of 2008 brought about an increase in demand for certain products of ICL Performance Products. On the other hand, the strengthening of the Euro against other currencies during recent years, increased imports from China and the appearance of new manufacturers have harmed the Company’s ability to compete.

The sharp rise in fertilizer prices during 2008, which brought with it an increase in the prices of white acid, ICL Performance Products’ principal raw material, required all manufacturers to increase the sale prices of their products. ICL Performance Products also increased the prices of its products. The increase in demand for white acid caused a certain dearth of this raw material and also contributed to the price increase. Since the Company is the manufacturer of several of the raw materials, and it has long-term supply agreements for most of the rest of the raw materials, the Company has managed to maintain stability in terms of the costs of its principal raw materials. The result of the increase in the Company’s sale prices together with stability in the prices of its principal raw materials brought about an improvement in the Company’s operating profits for 2008.

In the final quarter of the year, due to the global financial crisis, a worldwide recession began to be felt which, as set out above, affects the demands for ICL Performance Products’ products.

4.3.2 Products and Services

The following are the main product categories of ICL Performance Products:

Principal Products	Primary Applications	Primary End Markets
Specialty Phosphate-based Products		
Pure Phosphoric Acid	Metal treatment, cleaners, food additives and phosphate salts Electronics	Metal treatment, food and beverages Semiconductors, flat screens and printed circuits
Phosphate Salts	Treatment and conditioning	Detergents, toothpastes, food, metal treatment, leather, ceramics, and textile
Food Additives	Functional modification of food products	Food, mainly processed meats and cheese, dairy products, baked goods and beverages
Food Hygiene Products	Cleaning and disinfection	Dairy and cowshed fumigation, and meat and dairy industries
Fire retardant products	Fire retardant and prevention	Local authorities, etc., in North America and Europe
P ₂ S ₅	Lubricating oil additives and Insecticide products	Automotive and Agricultural industries
Polyphosphoric acid	Asphalt additives	Roadworks industry
Other products		
Water Treatment Chemicals	Conditioning of cooling and power station water, steel factories, boiler feeds, industrial water and drinking water	Industrial water treatment
Paper Chemicals	Chemicals for paper strength and paper surface quality	Paper industry
Alumina Compounds	Setting accelerators, Rheological additives	Building industry
Alumina and Magnesia Compounds	Antacid and antiperspirant active ingredients	Pharmaceuticals and cosmetics
Synthetic Gypsum	Casting and molding	Dental uses, medical, jewel making, hobby and ceramics
Thermoplastic Materials	Heel and toe reinforcement for shoes	Footwear

4.3.3 Detail of Sales and Profitability of products and services

The following is an analysis of the revenue and gross profit according to segment:

	Revenues (\$ million)*	% of ICL Revenues*	Gross profit (\$ million)	% of gross profit as a % of revenues
2008	1,543.0	21.9	545.4	35.3
2007	1,102.1	26.4	299.9	27.2

* For purposes of this table, ICL revenue figures used in calculation of percentage figures include revenue among business segments.

4.3.4 New Products

ICL Performance Products is involved in the development of innovative products in its areas of activity. In addition ICL Performance Products develops new formulations for existing products in order to adapt them as much as possible to the specific needs of its customers.

4.3.5 Customers

A. Dependence on single customer

ICL Performance Products does not have any single customer that accounted for more than 10% of the total sales of the group.

B. Breakdown of sales according to geographical markets:

	1-12/2008		1-12/2007	
	\$ millions	%	\$ millions	%
Israel	8	1	3	1
North America	580	39	419	39
South America	83	6	54	5
Europe	630	43	467	43
Asia	129	9	98	9
Rest of World	50	2	37	3

The relative growth of sales in North America and in Europe during 2008 was primarily a result of increased prices. Prices rose both because of the rise in raw material prices and because of the growth in demand.

4.3.6 Marketing and distribution

ICL Performance Products sells its products mainly to industrial and commercial customers in Europe, North America, South America and Asia. ICL Performance Products' marketing network is based primarily on an extensive internal marketing organization and, to a lesser extent, on external distributors and selling agents. To market and sell many of its performance products effectively, ICL Performance Products' marketing personnel work closely with customers in order to tailor the products to the customers' needs. ICL Performance Products is not dependent on external marketing pipelines.

A significant portion of ICL Performance Products' products are proprietary and have brand names well-recognized in their relevant markets, including Fibrisol, Brifisol, Joha, Tari, Rhenoflex, Anti-Germ, Py-Ran, Nutrifos, Levn-Lite, and Phos-chek.

Most of ICL Performance Products' sales are conducted according to agreements with terms of less than one year, and via spot orders placed close to the date of supply. In addition, ICL Performance Products has framework agreements with specific customers, through which the customer can purchase up to previously-agreed maximum quantities of product during the term, on the basis of which the customer issues purchase orders to ICL Performance Products from time to time.

4.3.7 Competition

A. Conditions of competition in areas of activity

Competition in the performance products segment centers on product characteristics, price, quality, service and the ability to address customers' needs. In this segment ICL Performance Products has many competitors, which vary from product to product.

ICL Performance Products has a leading position in the field of pure phosphoric acid and its downstream products.

B. Names of significant competitors

ICL Performance Products' competitors are large and mid-size international chemical companies, which have manufacturing and marketing presences in various countries, as well as regional companies that reap the benefits of being local manufacturers in a regional marketplace. In every field, many companies compete with ICL Performance Products by offering similar or substitute products.

Despite the presence of many Chinese manufacturers in the area of phosphate products, their ability to compete during 2008 as well as in the near future on a large scale is limited due to a lack of electricity in certain areas in China, the imposition of export levies on the export of phosphate-based products from China, the lower quality of their products and logistical difficulties⁶⁸.

Among the primary competitors of ICL Performance Products (other than the Chinese manufacturers) in each field are:

1. In the field of phosphate based products

A. Pure phosphoric acid, phosphate salts and food additives – ICL Performance Products' main competitors are: Thermphos International BV, Chemische Fabrik Budenheim KG, Innophos Inc., Prayon, PCS, Thai Polyphosphates, Haifa Chemicals Ltd. and various Chinese producers.

B. Hygiene products - The main competitors in Central Europe are: Ecolab Inc., and Johnson Diversey.

C. P₂S₅ – ChemTrade Logistics Company

2. In the field of other products.

A. In the field of paper chemicals - the primary competitors of ICL Performance Products are: BASF AG, Hercules, Kemira Oy, Ciba and Eka Nobel.

B. In the field of water – the primary competitors of ICL Performance Products are: Nalco and GE Water Technologies Betz.

C. In the field of PCG – the primary competitors of ICL Performance Products are: Reheis Inc. and Summit in the area of antiperspirant, SPI Pharma in the area of pharmaceutical products, and GC Corporation in the field of gypsum.

⁶⁸ The information stated in this section includes forward-looking statements based upon the projections of the Company. It is possible that actual results may vary depending upon changes in the Chinese economy in particular and the international economic in general.

D. In the field of Rhenoflex – the primary competitors of ICL Performance Products are: Texon, UTOP (a Taiwanese company), and Chinese manufacturers (in the Chinese market).

C. Approach for tackling competition:

ICL Performance Products addresses competition through the following activities:

- Maintaining a close connection with customers in order to respond to unique customer needs.
- Technical support and service.
- In certain cases, by tailoring specialty formulations to customer needs and in other cases manufacture of a wide range of products in order to create differentiation between segment's products and those of its competitors.
- Establishment and acquisition of manufacturing and marketing networks in various countries in order to reap the special benefits of being a local producer.
- Development of specialty markets in which ICL Performance Products has a relative advantage.
- Filing of patents and trademarks for specialty products.
- Reduction of production costs.
- Using purified and thermal phosphoric acid from own production and third parties.
- Developing and providing technical expertise in its areas of activity.
- Maintaining long established relationships with customers based on adapted proprietary knowledge and experience in its areas of activity.

4.3.8 Seasonality

ICL Performance Products' operations are not characterized by significant seasonal fluctuations over the various quarters.

4.3.9 Production

The following table sets out the production of principal products in 2008:

	Production in 2008 (thousands of tons)
Pure Phosphoric Acid (in terms of P ₂ O ₅)	151
Phosphate salts and food additives	349
Other phosphate-based products	59
Other products	179

4.3.10 Research and Development

A. Research and development activities and results

The principal research and development activities conducted by ICL Performance Products during the period of this report are as follows:

In the field of pure phosphoric acid, phosphate salts and food additives –

1. Development of innovative products in the area of phosphate salts and food additives in order to strengthen ICL Performance Products' position in the markets in which it is active.
2. Development of products that assist in prolonging the shelf life of food products.
3. Development of innovative products that address new customer needs.
4. Improvement of quality and characteristics of the special acids sold to the electronics and construction industries.
5. Improvement of manufacturing processes.

In other fields-

1. Development of new thermoplastic products based on ICL Performance Products patents.
2. Improvement of the water treatment product line.
3. Development of innovative products for the paper industry.
4. Improvements of pharmaceutical, cosmetics and gypsum products.
5. Development of additives for building industry.

B. Investment in research and development

ICL Performance Products' total research and development expenses in 2008 were approximately \$ 18.4 million.

4.3.11 Intangible assets – patents and trademarks

ICL Performance Products believes that protecting its intellectual property is one of the methods of protecting and developing its business activities. ICL Performance Products has, in various countries, approximately 1,570 registered trademarks and approximately 420 registered patents.

4.3.12 Raw materials and suppliers

The primary raw material for manufacture of phosphate salts and food additives is pure phosphoric acid, which is produced by purifying fertilizer-grade phosphoric acid in addition to a thermal process from elemental phosphorus (P₄). ICL Performance Products obtains fertilizer-grade phosphoric acid from ICL Fertilizers and also obtains P₄ and purified phosphoric acid from external manufacturers.

ICL Performance Products has long-term supply contracts with suppliers of P₄ and phosphoric acid that guarantee it orderly supply of these raw materials.

In addition to pure phosphoric acid, ICL Performance Products uses hundreds of other raw materials, which it purchases from many suppliers. The raw material with the greatest total cost is caustic soda.

4.3.13 Working capital

A. Raw material inventory policy

ICL Performance Products maintains raw material inventories in quantities that take into account the projected level of production based on consumption characteristics, supply dates, distance from the supplier and other logistical considerations.

B. Finished product inventory policy

ICL Performance Products' strategy is to maintain adequate inventories to ensure orderly supply to customers in consideration of the customers' distance from the manufacturing locations and their requirements for inventory availability, and in conjunction with optimization of the inventory's storage costs. Therefore, portions of finished product inventories are held in storage facilities in the destination countries.

C. Credit policy

ICL Performance Products extends credit terms to its clients according to customary practices in their locations. The Company's sales are generally covered by trade credit risk insurance or by letters of credit from banks with high credit ratings.

Below are details regarding the average credit level and average credit days:

	December 31, 2008	
	Average credit level (\$ millions)	Average credit days
Customers	236.3	56
Suppliers	83.7	20
	December 31, 2007	
	Average credit level (\$ millions)	Average credit days
Customers	176.3	58.4
Suppliers	70.5	23.3

4.3.14 Environmental matters

A. General

ICL Performance Products strives constantly and diligently to minimize its impact on the environment and takes care to ensure compliance with relevant legal requirements regarding environmental protection. In this context, ICL Performance Products also has an internal compliance program for environmental issues.

ICL Industrial Products runs a training program for employees on the topic of environmental matters for its employees and the contract employees who work in its plants in order to comply with the requirements of the law and to preserve the environment.

ICL Performance Products fully embraces the Principles of the Responsible Care program. BKG will become ISO 14001 certified in 2009 and Performance Products LP, which is a member of the American Chemistry Council will become RC14001 certified by the end of 2010.

Many of Performance Products facilities have long standing, active community outreach programs including Citizen Advisory Panels, periodic drills with local emergency responders, participation in the local emergency planning commission, open houses etc. These community outreach programs provide the opportunity for transparency with the general public and with local responders/regulators. In addition ICL Performance Products encourages employees practice environmental stewardship both at work and at home

During 2008, ICL Performance Products invested about \$2 million in property, plant and equipment for maintaining the environment, as well as expending about \$7.6 million in current expenses in environmental matters.

B. Future material capital expenditures for environmental matters⁶⁹

According to ICL Performance Products' estimates, the total capital expenditures and current expenses relating to environmental matters in 2009 are anticipated to be approximately \$ 11.1million. The scope of these expenses is expected not to decline in the years 2010 and onward. There might be an increase which cannot be estimated.

The main investments in the area of environment of ICL Performance Products are in the subject of water in Ludwigshafen, sewage at SJDC, Lawrence and Carteret in the US, treatment of the "red mud" in Ludwigshafen, integration of ISO 14001 in Ludwigshafen and Ladenberg and integration of RC 14001 in the US.

Kansas Department of Health and Environment (KDHE) renewed the National Pollutant Discharge Elimination System (NPDES) permit at Lawrence with a requirement to submit a detailed evaluation by mid 1010 for reducing phosphate in the discharge to the Kansas River. KDHE also required the City of Lawrence to do a similar reduction study on their discharge to the river so the City is requiring the Lawrence facility to evaluate its discharge to the City treatment plant.

These requests may increase the company's expenses for environment subjects in the future.

⁶⁹ Projections regarding the projected costs and expenses in 2008 and following constitute forward-looking statements, and are based on legislation and regulation currently in effect, on governmental requirements known to ICL Performance Products and on investment estimates made by Company engineers. The realization of these estimates cannot be certain. Any change in these estimates, including changes in the estimates made by the Company's engineers or changes in adoption of governmental requirements or legal rulings may cause different results than those stated above.

4.3.15 Safety and health

Some of ICL Performance Products' products, as well as the raw materials and production processes, involve various levels of risks to persons who might be exposed to them. ICL Performance Products must comply with the safety standards and requirements prescribed, in part, under local law, and in part under international and local standards. There is a trend towards new and stricter requirements, as a result of which, various investments might be required.

ICL Performance Products is continually making special investments in safety and health measures, with the aim of preventing accidents and whilst continually taking care of employees in the segment, and of persons in and around the facilities and products.

The boards of directors of the companies in the ICL Performance Products segment periodically examine safety achievements and events, and the extent to which targets set in light of the Company's safety policy are met. Management of the facilities conducts follow-ups of safety issues on an ongoing basis. ICL Performance Products has a safety and health compliance plan and effects internal checking processes in order to ensure compliance with legal requirements and ICL's guidelines.

OSHA principles are being implemented in most of ICL Performance Products' factories in Europe and the USA.

ICL Performance Products has a training and compliance program for encouraging a high and uncompromising level of awareness of safety and health issues among its employees and contractors operating on its premises. Safety and health goals are set periodically, with the aim of constantly improving safety and health goals, and implementation of such with the aim of achieving zero accidents. Employee protection means include, *inter alia*, protections on equipment and facilities and at work sites, protective measures for employees, procedures and training, appointing safety commissioners and safety teams, and investigating accidents and near-accidents.

In the area of health, there is an industrial health and preventative medicine system which includes, *inter alia*, periodic checks and risk assessments with respect to products and processes in facilities.

4.3.16 Limitations on and regulation of the Corporation

Following is a brief description of restrictions in law or legal arrangements, related to the operations of the corporation, which could have significant implications for ICL.

A. Subjection of activities to specific laws

ICL Performance Products' activity is regulated by legislation which varies according to product and location. Due to the large number of products and countries, there is no specific legislation that has a unique substantial impact on ICL Performance Products.

B. Business licenses

The business segment's plants have valid business licenses in accordance with legal requirements in their jurisdictions.

C. Standards

Chemical Licensing in Europe (REACH)

A statute covering the framework for licensing and evaluation of chemicals in the European Union (known as "REACH") came into force as of June 1, 2008. The statute applies to chemicals already on the market, as well as to new chemicals. Pursuant to this legislation, manufacturers on the common market and importers of chemicals or of chemicals that are contained in certain products shall be required to submit dossiers contain detailed information of every substance or chemical compound manufactured in or imported into Europe, in quantities of more than one ton per year (the amount and content of the information depends on the volume of production and/or sales in Europe, and the nature of the product in terms of its effect on health and the environment). Some of the products will undergo risk evaluation based on the information that is submitted, and others will only be able to be sold in the future under an appropriate permit. Such a permit will only be granted on the basis of quantified evidence relating to management of the product with regard to health and environmental aspects, the lack of appropriate alternatives, and a socio-economic evaluation. Certain durable, environmentally toxic substances, will only require permits based on a socio-economic evaluation and on condition that an alternative development plan is submitted, in order to encourage a transition to use of less hazardous substance.

The statute will be implemented gradually, between 2009 and 2018, under the supervision of the new European Chemicals Agency (ECHA), which is planned to reach full operations by June 2008.

Implementation of REACH will cause ICL additional costs in the field of licensing, control and implementation of product stewardship programs with customers, and might increase the prices of raw materials. Another possible risk caused by REACH legislation is reduction in usage of a product / material, or removal of certain products from the European market. In ICL Performance Products' assessment, it is also reasonable that there will be products and compounds that will require investment in research and development of alternatives, due to some components being removed from the European market. ICL Performance Products is preparing to implement the provisions of this statute.

Since this is the initial stage of the preparations by regulators, manufacturers and suppliers alike to implement the law, and there is still no accumulated experience in implementing it, ICL Performance Products cannot assess the amount of the costs that it might bear with respect to implementation of the law.

D. Standards and Quality Control

ICL Performance Products has a comprehensive and advanced quality control system.

- All of its plants have ISO 9001 management certification;
- ICL Performance Products meets the requirements of GMP in its food grade facilities (pure phosphoric acid, phosphate salts, and food additives) and hygiene products for the food industry.

E. Internal compliance

ICL Performance Products has adopted compliance programs with regard to antitrust, securities, prevention of sexual harassment, a code of ethics, safety and ecology.

4.3.17 Legal Proceedings

- A. In September 2007, ICL Performance Products USA received a summons from the US Department of Justice (DOJ) to provide information to a grand jury with respect to an investigation being conducted by it in the field of antitrust with respect to the sale of STPP (a salt based on phosphoric acid), with respect to the period between the beginning of 2002 and the end of 2005. In a letter received by ICL Performance Products in December 2007 from the US Department of Justice, the reference to ICL Performance Products is as a witness rather than as a suspect. On December 24, 2008, ICL Performance Products received a notice stating that the US Department of Justice had terminated the investigation in this matter.
- B. In October 2007, a claim was filed against ICL Performance Products by a drug company in the Court of Missouri, USA. The drug company alleges that it needed to recall finished products from the shelves due to an allegedly faulty product supplied both by Astaris (before its operations were purchased by ICL Performance Products) and by ICL Performance Products which was a raw material in the finished product of such drug company. The drug company is suing for damages and compensation in the sum of more than \$ 15 million. ICL Performance Products views Astaris and its previous owners as being responsible for all of the damage caused, if any. In the assessment of ICL Performance Products, even if it becomes apparent that ICL Performance Products is liable for damage caused, the financial exposure flowing from this suit is not substantial.

4.3.18 Goals and Business Strategy

ICL Performance Products seeks to increase its revenues, profitability and cash flow primarily through the following⁷⁰:

- A. Focusing on markets with high growth potential, mainly in Asia, South America and Eastern Europe.
- B. Capture of new market share by means of acquisitions and partnerships.
- C. Expansion of areas of operation into complimentary fields.
- D. Intensification of cooperation with customers for development of new products.
- E. Investment in research and development of new products and technologies.
- F. Reduction of costs to preserve and strengthen competitive capabilities in principal markets.
- G. Exploiting additional synergies presented by the Astaris acquisition.

4.3.19 Significant investment activities

On January 11, 2009, ICL Performance Products purchased the principal assets and operations of a business unit in the field of water treatment from the Henkel Group (hereinafter: the "Vendor") in consideration for the sum of approximately EUR 60 million (approximately USD 89 million) subject to adjustments mainly for working capital and undertakings to employees to be recruited. ICL Performance Products financed the purchase from its own independent sources, and from lines of bank credit.

The business unit that it purchased sells products, services and equipment for the treatment of water, particularly for industry and especially for the chemical and petrochemical industries, the energy production industry, the metals industry and the food and beverage industry. The division that was purchased has applications for cooling towers, power stations for heating systems, for drinking water and wastewater treatment and water purification, mainly in Germany, France, Spain, Italy and Turkey. As part of this transaction, the Company purchased the shares of French company Henkel Concord S.A.

The sales turnover of the purchased unit amounted, in 2006, to the sum of approximately EUR 52 million (approximately USD 77 million). Gross profit amounted to approximately 53% and operating profit to approximately 13%, based on unaudited figures. The unit employs some 180 employees who are expected to continue working at ICL Performance Products after the purchase is completed.

ICL Performance Products intends to integrate the operations of the business unit purchased with the existing water treatment business unit at ICL Performance Products, whilst exploiting operational and other synergies, including in the purchase of raw materials, supplementary products and geographic coordination of operations. The purchase will expand the set of products, services, applications and knowledge that ICL Performance Products can offer its customers, and will promote the geographical distribution of supply to various countries. In addition, the purchase is intended to improve ICL Performance Products' R&D capabilities by adding advanced technology and intellectual property⁷¹.

4.4 Other Activities

- A. ICL holds 50% of I.D.E. Technologies Ltd. (hereinafter "**IDE**"). IDE is active in the following fields: erecting and selling water desalination plants, selling water, operating and maintaining water desalination plants and development and production of industrial evaporators and heat pumps, all these in Israel and worldwide. IDE built and operates a desalination facility for the Cyprus government and holds 50% of a venture for construction and operation of desalination facilities in Ashkelon and Hadera in Israel. The Ashkelon facility was completed and produces at an annual rate of over 100 million cubic meters of desalinated water. The term of the agreement is for approximately 25 years from the date of activation at the end of 2002. The Hadera plant is in the erection stage and is expected to produce water at a rate of about 100 million cubic meters of water per year for a period of 25 years from the signature of the agreement. After the balance sheet date, the State of Israel accepted the proposal of the joint venture to expand the Ashkelon plant to desalinate an additional 15 million cubic meters of seawater per year and the proposal of the joint venture to expand the Hadera plant to desalinate an additional 27 million cubic meters of seawater per year.

⁷¹ The strategic intentions of ICL Performance Products, as stated in this section, reflect the strategy of ICL Performance Products at this time, and are in part forward-looking statements that are based on current estimations of the area of operations and the Company's condition, which may change, in whole or in part, from time to time. There can be no certainty regarding the realization of ICL Performance Products' intentions or strategies

On June 8, 2007, IDE signed an agreement to construct a seawater desalination plant in China, for a local energy company, in the sum of approximately 119 million dollars, and in June, 2008, it signed an agreement with a customer in Australia to plan and erect a desalination facility with a volume of 46 million cubic meters of water per year.

- B. Dead Sea Magnesium Ltd. – Dead Sea Magnesium Ltd. is a joint venture for the production and sale of magnesium which ICL set up with Volkswagen. ICL holds approximately two thirds of the joint venture and Volkswagen holds the remainder of the investment.

Dead Sea Magnesium deals in the production, marketing and sale of pure magnesium and magnesium alloys.

Magnesium is considered to be one of the lightest structural metals in existence. One of the main characteristics of magnesium is a better strength to weight ratio than other metals and substitutes, mainly steel and aluminum. The metal is mainly used in the following branches of industry: the aluminum industry, where the metal is used as a principal alloy in the manufacture of aluminum, the steel production industry, where the metal is used as an aid in using up the sulfur in steel, and the magnesium alloy foundry industry, mainly for the production of parts for the vehicle industry. There are other industries where the metal is used, some of which are in a relatively small market.

On December 2, 2008, the Company received notice from Volkswagen AG (“Volkswagen”), which holds 35% of the share capital of the subsidiary Dead Sea Magnesium Ltd. (“DSM”) under which Volkswagen requested, pursuant to its understanding of the joint venture between the parties of 1996, to sell its shares in DSM to ICL.

ICL rejected the notice, inter alia since in ICL’s opinion, Volkswagen is not entitled to exercise the right to transfer at this time, and it continues to be bound to perform its obligations to DSM, to the banks and to third parties.

Negotiations and meetings held between the parties up until recently in order to bring the dispute to an end have not, to date, resolved the matter. The Company is examining its steps as a result, including application to legal instances.

Chapter 5 – Additional General Corporate Information

5.1. Property Plant & Equipment

ICL's main manufacturing facilities are located in Israel, Germany, the Netherlands, Spain, England, the United States, China, and France. In addition, ICL has manufacturing facilities in Austria, Belgium, Turkey, Brazil, Argentina and Australia. The following is a detailed description of the primary manufacturing and logistic facilities and seaports used in ICL's activities:

Country	Location	Main Characteristics	Owned/leased	Size in dunam
Israel	Sodom	Solar evaporation ponds; pumping facilities; manufacturing and transportation facilities for: potash, bromine, chlorine, EDB, HBr magnesium chloride brines and solids, sodium chloride, metal magnesium, and aluminum chloride; power plant	Leased under the Concession Law until 2030	30,140
	Mishor Rotem	Manufacturing and transportation facilities for: phosphate rock, sulfuric acid, fertilizer-grade phosphoric acid, phosphate fertilizers, compound and specialty fertilizers, pure phosphoric acid, and magnesia products.	Leases expiring between 2028 and 2041. Regarding magnesia facilities – leased until 2019 with option to lease for 49 subsequent years	3,580
	Tzafir (Zin and Oron)	Manufacturing and transportation facilities for: Phosphate rock Oron Tzin Road	Leases expiring between 2017 and 2024. Leased	2,122 –
	Ramat Hovav	Bromine compound manufacturing and transportation facilities	Leases expiring between 2024 and 2048.	434
	Kiryat Ata	Manufacturing, storage and transportation facilities for liquid fertilizers, animal feed additives and chemicals. research laboratory	Leases expiring between 2046 and 2049.	670
	Ashdod Port	Warehouses and loading and unloading facilities for bulk and liquids	Leased until 2016	201
	Eilat Port	Warehouses and loading and unloading facilities for bulk.	Leased until 2014	20

Country	Location	Main Characteristics	Owned/leased	Size in dunam
Germany	Ludwigshafen	Manufacturing facilities for various chemicals and compound fertilizers; warehouses and port facilities	Mostly owned (the balance leased until 2012)	810
	Ladenburg	Manufacturing facilities for pure phosphoric acid, phosphate salts, food additives and various chemicals	Owned	150
	Viernheim /Eppelheim	Manufacturing facilities for food additives	7,500 sqm owned, the rest leased	13
	Memmingen	Manufacturing facilities for hygiene products	Owned	13
	Bitterfeld	Manufacturing facilities for phosphorus-based flame retardants and liquids and other phosphorus-based chemicals	Owned	48
Netherlands	Terneuzen	Manufacturing facilities for bromine compounds; warehouses	Mostly owned (the balance leased until 2034)	86
	Amsterdam	Manufacturing facilities for phosphate and compound fertilizers; warehouses and port facilities	Mostly owned (the balance leased until 2034)	120
Spain	Catalonia	Potash and salt mines; manufacturing facilities for potash and sodium chloride; warehouses	Owned by the Company	4,505
	Catalonia (Barcelona)	Warehouses and port facilities for bulk loading and unloading	Facilities and equipment are owned. Land is owned by the port.	13
UK	Cleveland	Potash and salt mines; manufacturing facilities for potash and sodium chloride; warehouses	Owned by the Company	1,580
	Teesside	Warehouses and port facilities for loading and unloading	Leased until 2014	87.6
	London Acton	Food additive production plant	Lease until 2010 with option for another 20 years	Approx. 1.5

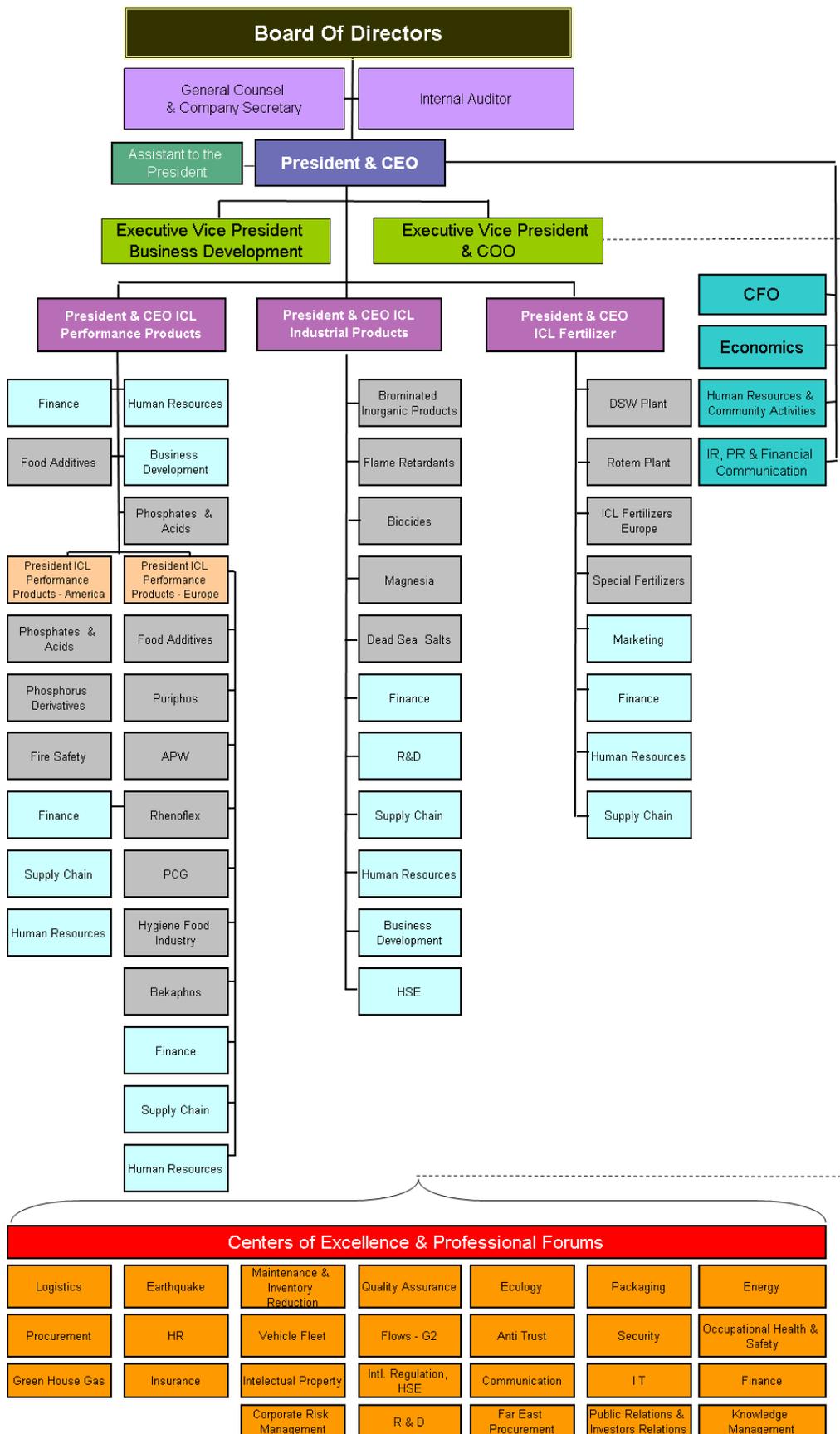
Country	Location	Main Characteristics	Owned/leased	Size in dunam
USA	West Virginia	Manufacturing facilities for biocides (water treatment chemicals) and phosphorus-based flame retardant and functional fluids manufacture facilities	1,792,000 m ² owned by the Company with 16,000 m ² under lease	1,808
	Lawrence Kansas	Manufacturing facilities for pure phosphoric acid and phosphate salts	Owned by the Company	133
	St. Louis Missouri	Manufacturing facilities for phosphate salts	Owned by the Company	77
	Carteret New Jersey	Manufacturing facilities for pure phosphoric acid and phosphate salts	Owned by the Company	69
	Ontario California	Manufacturing of phosphate salts	Leased until 2012	14
Brazil	San Jose Dos Compos.	Manufacturing of phosphate salts	Leased	10
	Sao Bernado do Campo (Sao Paulo)	Manufacturing of phosphate blends and food additives	Leased	28
China	ShanDong Province	Manufacturing facilities for bromine compounds, warehouses and offices	Leased until 2049	Approx. 64
	LYG – Jiangsu Province	Manufacturing facilities for bromine compounds, warehouses and offices	Leased until 2056	Approx. 33
	YBKGT Kunming Yunnan Province	Manufacturing facilities for phosphate salts and food additive manufacturing facility	Leased until 2049	Approx. 27
	TARI - Shanghai	Manufacturing facility for food additives	Leased	Approx. 3
	BKG Industrial Park Jiangyin JiangSu Province	Manufacturing facilities for raw materials for cosmetics, chemicals for paper, thermoplastics for footwear, packaging and storage of interim products for the leather industry. Customer service lab	Leased until 2054	Approx. 67
	ICL Jiaxing - ZheJiang Province	Facilities under construction for the manufacture of phosphorus-based flame retardants and water treatment products	Leased until 2058	Approx. 77

Country	Location	Main Characteristics	Owned/leased	Size in dunam
France	Caffiers near Calais	Manufacturing facilities for magnesia products and calcium carbonate (Scoralite); warehouses; offices	Owned	42
	Faucogney	Manufacturing facilities for various chemicals	Owned	6
	Vaas	Manufacturing facilities for ICL Performance Products hygiene products	Owned	24
Austria	Neumarkt	Manufacturing facilities for hygiene products	Part owned and part leased	12
Australia	Melbourne	Manufacturing facilities for food additives	Leased	7

In addition, the Company maintains plants and logistics facilities in other locations throughout the world, as well as office buildings in Israel and overseas, that are both owned and leased.

Human Resources

A. The following chart represents the organizational chart of ICL:



ICL's Board of Directors directs the Company's policy. The Board of Directors of ICL sets the policy of the company and supervises the Chief Executive Officer's execution of his duties. The Chief Executive Officer heads the Company, assisted by a management team that also includes the managers of ICL Fertilizers and ICL Industrial Products.

Each segment has its own management team.

In addition, within the Group there are inter-company centers of excellence in various fields headed by experts in each field from the various segments, who coordinate these centers in addition to their ongoing responsibilities. These centers assist the ICL headquarters and its segments with management and supervision of their fields of responsibility.

B. Breakdown of employed personnel

As at December 31, 2008, ICL employed 10,684 employees. Of these, 44 are employees of the Company (Israel Chemicals Ltd.) and the balance are employed by the various subsidiaries.

The following details relate to the Company's employees.*

1. Breakdown of employees by area of activity:

	2008	2007
Production	8,377	8,158
Marketing and Sales	947	776
Management & Administration	993	990
Research and Development	367	360
Total Employees	10,684	10,284

* In the tables above and below regarding human resources – for partially consolidated companies, the number of employees included from each company reflects the percentage of consolidation of that company.

2. Breakdown of employees by segment:

	2008	2007
ICL Fertilizers	5,111	5,111
ICL Industrial Products	2,592	2,484
ICL Performance Products	2,457	2,210
Other (includes employees of IDE, DSM and ICL management)	524	479
Total Employees	10,684	10,284

3. Geographic breakdown of employees:

	2008	2007
Israel	5,063	4,917
Germany	1,149	1,106
Spain	1,082	1,129
UK	981	969
Netherlands	246	255
USA	967	991
China	418	321
Brazil	110	103
Other	668	493
Total Employees	10,684	10,284

C. Significant changes regarding employees

As at December 31, 2008 ICL had 10,684 employees, compared with 10,284 employees on December 31, 2007, an increase of 400 employees. The increase in the number of employees is mainly a result of the acquisition of companies and operations during the last year, including increased holdings of Sinobrom, water treatment operations that were acquired from Henkel and Biogema. Furthermore, during the course of 2008, following various statutory amendments (the Human Resource Companies Law, etc.), hundreds of human resource and contract employees were accepted into companies in the Group in Israel in order to comply with the new statutory provisions.

D. Investment in employee development, training and education

ICL continually invests in development, training and educating the Company's workforce. ICL takes pride in the fact that most of its managers rose from within the Company.

ICL has established an internal training center for education purposes, which acts in a few central areas – development of the organizational topics that are common to ICL companies management development and training, professional courses, professional colloquium events, seminars. The management of the center consists of representatives from the various segments.

In addition, both within and outside the frame of the training center, periodic training is conducted in the areas in which ICL has internal compliance programs: restrictive trade practices, securities law, safety, ecology and prevention of sexual harassment, prevention of smoking and the code of ethics.

Additional activities are also planned to raise the level of professionalism such as: recruitment of employees with qualifications in various fields, initial sorting and training courses (in operational and maintenance professions), preparation of business descriptions (safety / security / ecology), etc.

E. Employee incentive program

On January 28, 2007 (the "Effective Date"), the board of directors of ICL approved an outline under which office holders and other senior employees of the Company and of companies under its control in and out of Israel would be offered 12,900,000 options. Accordingly, on January 28, 2007 and on March 27, 2007, 11,800,000 options were allotted, and out of this sum, 2,200,000 options were allotted to the CEO. The balance of the options that were not allotted were cancelled. Each option affords a right to receive one

ordinary share in the Company by way of transfer or allotment, in return for payment of an exercise price of NIS 25.59 (the base price for the shares at the beginning of the day of trading on which the resolution was passed), linked to the CPI and subject to adjustments (the "Exercise Supplement"). Alternatively, and at the Company's discretion, it shall be entitled to transfer or allot shares in the sum of the difference between the share price upon exercise, and the Exercise Supplement. The option warrants are not negotiable or transferable.

The options are vesting in three installments – one third vested on January 27, 2008. The option warrants, or the shares obtained upon exercise thereof, if exercised, are blocked for an additional period, until January 27, 2009. Another third of the option warrants vested on January 27, 2009; the option warrants or the shares obtained upon exercise thereof, if exercised, shall be blocked for an additional period, until January 27, 2010. The final third shall vest on January 27, 2010, and the option warrants or the shares obtained from exercise of them, if exercised, shall be blocked for an additional period, until January 27, 2011. The option warrants for employees in Israel were allotted to the trustee under section 102 of the Income Tax Ordinance, under the capital gain track, and accordingly, the option warrants or the shares received from exercise thereof, as the case may be, will be held by the trustee for an obstruction period of two years from the date of allotment.

F. Employment benefits and agreements

ICL employees in Israel are employed pursuant to collective employment agreements, senior ICL personal employment agreements and personal agreements. The collective employment agreements are signed for specified terms and are renewed from time to time. By law, in the event a new collective employment agreement is not signed, the terms of the original agreement are extended for a period of an additional year or for an unlimited term, as the case may be, unless one party gives the other notice of rescission. As of the date of this report, no notice of cancellation had been given for any of the collective employment agreements referred to above.

As of the date of this report, the following companies have collective agreements: ICL Fertilizers' Dead Sea Works Ltd. subsidiary, a collective employment agreement in effect until the end of September 2010. At ICL Rotem Amfert ("Rotem"), there is a collective employment agreement in effect until the end of August 2011.

At ICL Industrial Products' Dead Sea Bromine Ltd. subsidiary a collective employment agreement is in effect until the end of June 2012. At Dead Sea Magnesium, a collective employment agreement was in effect until the end of June 2011. From time to time there are disputes at various of the companies' facilities regarding negotiations to renew the labor agreement.

Senior employees in special positions and members of management are employed under personal agreements. These agreements are not limited by time and can be terminated with prior notice of a few months.

Local employees of ICL companies overseas are employed according to the employment terms prevalent in the countries in which they are employed. Most of the overseas employees of ICL, primarily in Germany, the Netherlands, England and the United States, are employed under collective employment agreements.

A relatively limited number of the employees at ICL sites in Israel are employed by outsourced personnel agencies. In addition, the Group has contracted in Israel with subcontractors for provision of various services such as security, packaging, maintenance, catering, cleaning etc. In accordance with the decision of the Board of Directors of ICL and its Israeli subsidiaries in October 2004, contractors who employ workers at ICL's plants in Israel are required to give employees working permanently for ICL, salary terms beyond those required by law. Pursuant to this decision, the employers are obligated to grant these employees, in addition to current salary that must be at least 5% higher than the minimum wage stipulated by law, pension contributions, severance fund contributions, recuperation funds, appropriate uniforms, meals etc.

On October 24, 2004 the Board of Directors established supervision procedures for its subcontractors in order to ascertain whether they are granting their employees the conditions described above.

For details regarding the severance fund, pension and early retirement see note 22 to the financial statements as at December 31, 2007.

G. Rationalization plans

In the past few years, ICL has been implementing and intends to continue implementing rationalization and savings processes. As part of this trend, the Company continued its early employee retirement scheme in 2008⁷².

H. Code of ethics and internal compliance programs

The Board of Directors of ICL approved a Code of Ethics for ICL – for details see section 3.3.11 above.

ICL maintains an internal compliance program in order to ensure adherence to relevant legal requirements. It has clarified to senior managers and other relevant officeholders, that, as part of their management responsibilities, they must continually and directly ensure compliance with the legal requirements of the Company for which they serve. These matters are also reviewed regularly and quarterly by the management and Boards of Directors of the various companies. Among other things, internal compliance programs have been prepared and implemented in the areas of antitrust, securities law, ecology, safety and prevention of sexual harassment, code of ethics and prevention of smoking; seminars have been held for managers and relevant employees in these areas and implementation of the legal requirements is checked regularly.

All of the companies' employees have undergone training during the past two years on the importance of acting in accordance with the code of ethics. For further details regarding the implementation of compliance in each segment, see sections 3.3 and 4.1.15(f), 4.2.16(e) and 4.3.15(e) above.

5.3 Finance

5.3.1. Financial situation and sources of financing

ICL's policy is to vary the sources of financing among various financial instruments, and between local and international financing entities.

During the course of 2008, a decrease of approximately \$249 million was recorded in the Company's net financial liabilities and at the end of the period they amounted to \$964 million⁷³. The decrease in liabilities stems mainly from a positive cash flow from current operations in significant amounts which was used, *inter alia*, to repay net financial liabilities.

ICL's financing sources are short- and long-term bank loans mainly from international banks, bonds issued to institutional investors in the USA, short-term commercial paper which are not listed for trading on the stock exchange and which are issued from time to time, and customer securitization in which some of the companies in the Group sell their

⁷² The information contained in this section is forward-looking information. The Company's ability to continue with its plan, and the extent of its success, are dependent, *inter alia*, upon personal consents obtained, if at all, with each and every employee, in meetings with committees and under the economic and tax circumstances in place at the appropriate time.

⁷³ Net financial liabilities – credit, long-term and short-term undertakings from banks and other credit providers, less cash and long- and short-term deposits in financial and government institutions.

customer debts in return for cash payment. For details regarding the Company's financial situation and sources of financing, see section 4 of the Board of Directors' report.

5.3.2. Average interest rates

For information regarding average interest rates on loans, see notes 18 to the financial statements.

Most of ICL's loans bear variable interest rates based on floating interest rate based on LIBOR for short terms of one to six months, plus a premium as defined in each loan agreement. Therefore, the Company's financing expenses are exposed to interest rate fluctuations. ICL partially reduces this exposure by means of financial instruments, including interest rate derivatives, which both float fixed interest rates and create protection against variable rates reaching certain levels, in order to adjust its actual interest rate structure to match its projections regarding anticipated developments in interest rates. A minority of loans bear fixed-rate interest for the duration of the loan.

For details regarding these transactions, see note 28 to the financial statements.

5.3.3. Sale of customer debt under securitizing transaction

1. In July 2004 ICL and some of its subsidiaries joined in a securitization transaction for five years with Rabobank whereby the companies will sell most of their receivables from customers, to an external company established for that purpose that is not owned or controlled by ICL. The securitization withdrawal limit is \$ 300 million. The Company's policy is to exploit the securitization limit in accordance with cash flow requirements, alternative sources and market conditions. The balance of the securitization utilized as at the balance sheet date amounted to \$ 70 million.

For further details regarding securitization transactions see Note 4(b) to the financial statements.

5.3.4. Limitations of the Company's ability to receive credit

In connection with some of the financing transactions described above, ICL is obligated to maintain certain financial relationships within its consolidated balance sheet:

1. The ratio of net financial liabilities to equity on the consolidated balance sheet may not be higher than 2.1.
2. ICL's equity may not fall below \$700 million plus 25% of the cumulative annual net income for 2005 and onwards.
3. The ratio of EBITDA, as defined in the financing agreements, to net interest expense must be at least 3.5.
4. The ratio of net financial obligations to EBITDA, as defined above, must not exceed 4.5.
5. The Company's subsidiaries' total financial indebtedness is limited to 10% of the total assets in the Company's consolidated balance sheet. In certain cases loans to subsidiaries are not included in this restriction.
6. ICL's loan agreements are generally based on provisions standard in the respective market, with the inclusion of clauses regarding negative pledge, commitments to maintain at least 67% ownership of material subsidiaries, and the State of Israel continuing to hold the "Special State Share." As at the date of this report, ICL has been and remains in compliance with the above conditions.

5.3.5. The Company's revolving credit facilities and their terms

ICL has a loan in the sum of \$ 725 million which is repayable in 2012. Under the loan agreement, the sum of \$ 435 million is a line of credit which may be used at any time. As at the balance sheet date, the Company is using the entire line of credit. During periods of non-utilization, the Company pays commitment fees. Likewise, a non-utilized securitization

limit (see section 5.3.3) in the sum of \$ 230 million as at the balance sheet date is tantamount to an unutilized line of credit.

5.3.6. Credit rating of the Corporation

The Company has a credit rating of AA+, given by S&P Maalot – the Israel Securities Rating Company Ltd.

5.3.7. Bank Loans in Dead Sea Magnesium

Dead Sea Magnesium obtained long-term loans from banks in the sum of about \$76 million, which were due to be repaid at December 31st, 2008. DSM approached the lender institutions with a request that they not institute actions against it for non-payment of the loans for a period of three additional months after the due date of the payments, in order for DSM to negotiate with its shareholders. In addition, ICL informed the banks that it would continue to guarantee the obligations of DSM up to its proportional share in the company stock (65%). The banks agreed to this request of DSM and agreed that they would not take any action until March 31st, 2009.

5.4 Taxation

For details regarding the ICL's tax situation see note 16 of the financial statements.

5.5 Environmental Matters – see section 3.3 above.

5.6 Safety - see section 3.3 above.

5.7 Limitations on and regulation of the Corporation

5.7.1 Restrictive Trade Practices

Certain subsidiaries of ICL (and also ICL in those areas in which the subsidiaries have been declared) have been declared monopolies in Israel in the following areas: potash, phosphates, phosphoric acid, sulfuric acid, ammonia, chemical fertilizers, phosphate fertilizers, bromine and bromine compounds. In light of their declarations as monopolies, the companies are subject to limitations set forth in Chapter 4 of the Restrictive Trade Practices Law, most significantly its prohibition to abuse their positions as monopolies. In 2008, approximately 6% of ICL's revenues derive from Israeli sales and therefore, in the Company's estimation, the abovementioned declaration does not have a material impact on ICL. ICL also has an internal antitrust compliance program (see also section 5.2(h) above).

5.7.2 Special State Share

The State of Israel holds a nontransferable Special State Share in ICL on order to preserve vital State interests. Any change in provisions requires approval of the State. The Special State Share grants the following rights:

A. Limitation of transactions and other actions: Sale or transfer of material assets of the company (in Israel), including certain types of changes in structure, relating to ICL's assets and activities in Israel or granting any other rights in the above-mentioned assets, not in the ordinary course of the company's business, whether in one transaction or in a series of transactions, will be invalid without the approval of the holder of the Special State Share, who will have the right to oppose the transfer of a material asset as stated above, only if in its opinion such transfer is likely to harm one of the "vital State interests." Restrictions are similarly imposed on voluntary liquidation, merger and reorganization, excluding certain exceptional cases as enumerated in the articles of association.

B. Limitations on acquiring shares:

- (1) Any acquisition or holding of 14% or more of the issued share capital of the Company will not be valid with regards to the company without the approval of the holder of the Special State Share. In addition, any acquisition or holding of

25% or more of the issued share capital of the company (including increase of its holdings to 25%) will not be valid with regard to the company without the approval of the holder of the Special State Share, and even if in the past the approval of the holder of the Special State Share had been received for a ownership percentage less than 25%.

- (2) In addition to the above, the approval of the holder of the Special State Share will be required for any percentage of ownership of any shares whereby the holder is granted the right, ability or practical potential, to appoint, directly or indirectly, a number of directors of the company that represent half or more of the directors of the company, and will not be valid regarding the company as long as that approval has not been obtained, as noted above.

For purposes of this subsection (2), pledge and/or charge over shares of the company shall be deemed to be an acquisition of shares.

- C. **Right to information:** The right to receive information from the company, as provided in the articles of association. The articles of association also provide that the holder of the Special State Share will use this information only to exercise its rights under the articles of association for purposes of protecting the vital State interests.

The articles of association further impose a periodic reporting obligation to the holder of the Special State Share, regarding all transactions pertaining to assets approved by the board of directors during the three months prior to the date of the report, any changes in capital ownership and any voting agreements among the company's shareholders signed during that period.

- D. The following are "**vital State interests**" as defined in the Articles of Association for purposes of the Special State Share:

1. To preserve the character of the company and its subsidiaries Dead Sea Works Ltd., Rotem Amfert Negev Ltd., Dead Sea Bromine Company Ltd., Bromine Compounds Ltd. and Tami (I.M.I.) Research and Development Institute Ltd. (the Company and these subsidiaries are referred to here and hereinafter the "Companies") as Israeli companies for whom the center of business and management is Israel. In the Company's estimation, this condition is being upheld.
2. To monitor the control over minerals and natural resources, for purposes of their efficient development and utilization, including maximum application in Israel of the results of investment, research and development.
3. To prevent acquisition of a position of influence in the Companies by hostile entities or entities likely to harm foreign relations or security issues of the State.
4. To prevent acquisition of a position of influence in the Companies or management of the Companies, whereby such acquisition or management will create a situation of significant conflicts of interest likely to negatively impact one of the vital interests enumerated above.

- E. **ICL as an Israeli company:** The ongoing management and control over the business activities of the company must be in Israel. The majority of the members of the Board of Directors must be Israeli citizens and residents. In general, meetings of the Board of Directors must take place in Israel.

- F. **Full extent of rights:** Other than the rights enumerated above, the Special State Share will not grant the holder any rights pertaining to voting or capital.

The State of Israel also holds a Special State Share in the following ICL subsidiaries: Dead Sea Works Ltd., Dead Sea Bromine Company Ltd., Rotem Amfert Negev Ltd., Bromine Compounds Ltd., Tami (I.M.I.) Research and Development Institute Ltd. and Dead Sea Magnesium Company Ltd. The rights granted by these shares according to the articles of association of these subsidiaries are identical to those rights enumerated

above. The full provisions governing the rights of the Special State Share appear in the articles of association of ICL⁷⁴ and the Companies enumerated in subsection (d) above, and are available for the public's review. The Company reports to the State on an ongoing basis in accordance with the provisions of its articles of association. Certain asset transfer or sale transactions which in ICL's opinion require approvals, have received the approval of the holder of the Special State Share.

5.8 Business Goals and Strategy⁷⁵

The Company's goal is to maximize shareholder value over time, taking into account the expectations and rights of the other parties that have interests in the Company (employees, residents, customers etc.). The Company's strategy for achieving this goal was defined in 1999 and stands to this day.

This strategy includes the following components:



ICL depends on its strengths to grow, as seen in the following diagram:

A. Focus on managerial operational segments

ICL is based on a segmented management structure: ICL Fertilizers, ICL Industrial Products and ICL Performance Products. These segments correspond to the ICL's management approach and do not necessarily reflect the legal-juridical structure of the Company.

B. Enhancing penetration of international markets

ICL is focused on strengthening the geographic spread of its activities.. The Chinese market is a notable example, in which ICL has initiated and setup in recent years a number of joint ventures for manufacture of products based on or complementary to raw materials and products produced by ICL Industrial Products and ICL Performance Products. Noteworthy also are the purchase of the activities of Astaris in the USA, Supresta in the USA and Germany, and the pan-European water businesses of Henkel. The Company is also looking into setting up additional plants in these fields throughout China. In 2008, approximately 94% of ICL's sales were made outside of Israel. In addition, approximately 38% of ICL's sales turnover were from its activities conducted outside of Israel. ICL also has logistic advantages and possibilities of operational

⁷⁴ ICL's Articles of Association are available on the website of the Israel Securities Authority (<http://www.magna.isa.gov.il>) and TASE (<http://maya.tase.co.il/bursa>) under "Company reports."

⁷⁵ The Company's plans and strategies, as described above, reflect the strategies of the Company as of the date of this report, are based on its current evaluations of its various eras of activity of the Company and the Company's current situation, and may change, in whole or in part, from time to time. There can be no certainty regarding the realization of these plans or strategies.

optimization compared with most of its competitors, due to the location of ICL's plants in Israel and Europe.

C. Expanding the range of higher value-added product offerings

ICL is working to expand the production and sales of higher value added products through vertical and horizontal integration. This enables growth whilst strengthening existing capabilities within ICL and utilizing significant synergy advantages. In addition, ICL is expanding its product offering by adding new products and applications and by custom-designing existing products to conform to unique customer requirements, for new purposes (such as those flowing from an update of environmental standards) and the replacement of competing products for existing applications.

D. Taking full advantage of synergies

ICL takes advantage of potential synergies among its plants in an effort to increase its efficiency and competitiveness and reduce its costs of production, marketing and logistics. The synergies also become the basis for further growth and expansion of ICL. For these purposes, during 1999-2001, ICL acquired the minority stakes in its publicly-traded subsidiaries, which enabled it to exploit these synergies between the companies. The Company dedicated much of its attention to identifying potential synergies among its various plants and business segments. Synergy is manifested, among other things, by using waste and by-products of one process as raw material for another process. Decisions regarding investments or changes in manufacturing methods require evaluation of their impact on the abovementioned synergies.

ICL has Centers of Excellence (special professional forums set up for formulating policy for the uniform synergetic treatment of a given professional area) in Israel and around the world, for the purpose of promoting and exercising potential synergies better.

E. Improving cash flow

ICL is focused on improving its cash flow as part of its strategic approach. In this context, cash flow is a central determinant in ICL and the segments' considerations in making management decisions.

F. Diversifying sources of financing

ICL seeks to diversify its sources of financing between bank and non-bank sources in order to increase the relative share of non-bank sources. The Group also seeks to diversify among domestic (Israeli) and international (non-Israeli) financing sources.

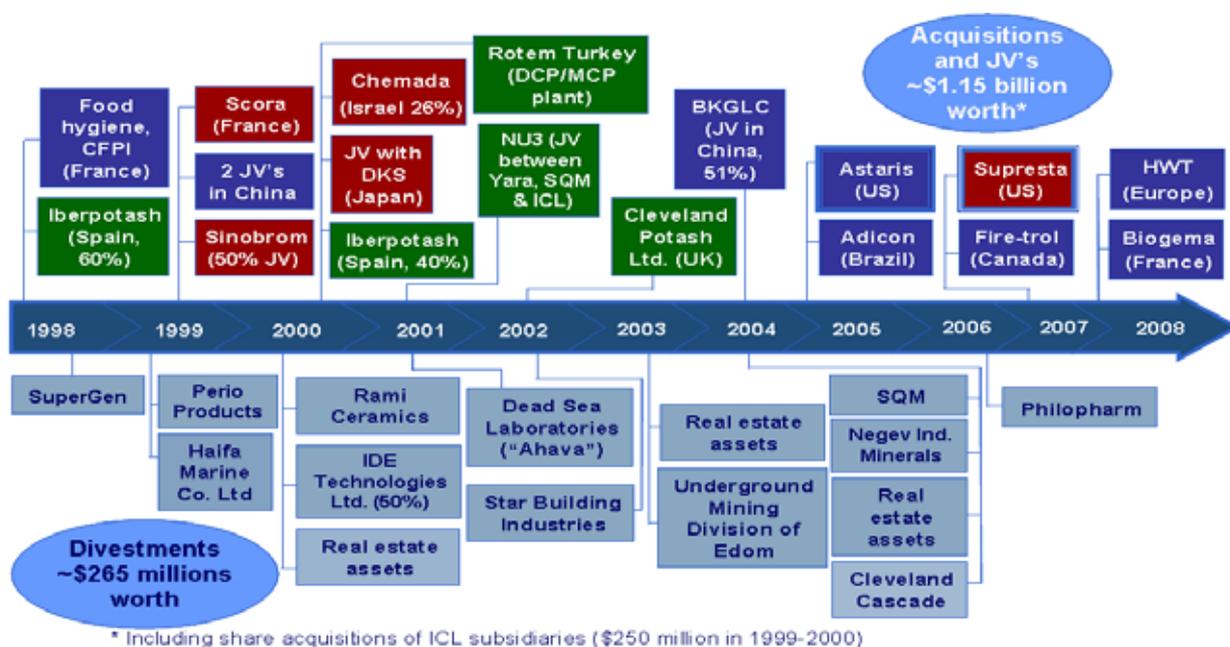
G. Expansion of core activities [

ICL is working on continued investment in the areas of potash, bromine and phosphate, in order to expand its market share and reduce its production costs. For example, in the past few years, ICL has invested approximately \$133 million in expanding DSW's potash production capacity and is also in the process of increasing raw material production capacity. In the area of Industrial Products, expansion of bromine production capacity in Sodom has been approved. The project is currently being set up. Likewise, ICL Industrial Products purchased Supresta, which is the largest manufacturer of phosphorus based flame retardants in the world. ICL Performance Products acquired most of the assets and operations of Astaris and Fire-Trol which manufacture products based on phosphates and upon phosphorus. In 2008 ICL acquired the activities and assets for water treatment via specialty chemicals of the German Henkel Group. ICL plans to increase its production capacity in other areas as well, while reducing production costs.

H. Mergers, acquisitions and joint ventures

ICL strives to locate and identify business acquisition opportunities, in order to expand and strengthen its core business through acquisitions of complementary technologies and auxiliary businesses. Thus, for instance, the Company purchased subsidiaries in Spain and the UK – IP and CPL – in 1998 and 2002 respectively, and the assets and operations of Astaris in North and South America in 2005. To this should be added the acquisition of Supresta in August 2007, the acquisition of Biogema and the water treatment unit of the Henkel Group in January 2008. ICL is also looking into expanding its holdings of strategic raw materials in order to improve its ability to compete. Since 1998, ICL has completed around 20 mergers and acquisitions and has invested in joint ventures in the total sum of approximately \$ 1.15 billion. ICL is interested in continuing to leverage its technological and operational know-how and other capabilities acquired by the Company for acquisition of other businesses in order to maximize competitive advantages, synergies and growth potential. At the same time, ICL has divested non-core companies and business in the amount of \$265M.

Focusing on Core Business Areas



I. Measurements and Benchmarking

ICL utilizes advanced benchmarks when evaluating management decisions of ICL and its segments. These benchmarks are set in accordance with the Company's strategy to focus on increasing shareholder value and improving cash flow. Management's compensation takes into account their achievement of the milestones set in accordance with these benchmarks. In addition and in order to balance between management incentives and Company performance, the Company maintains management compensation programs based on option and share grants. These options and shares are "locked up" for various periods of time so that the managers' benefit is tied to the Company's performance during such periods.

As of the date of the balance sheet, ICL had taken various steps in furtherance of its strategy, including:

- In the field of fertilizers, the network of management, marketing, ground transportation, sea shipping and loading facilities at the ports in Israel and Europe were consolidated, and ICL Fertilizers Europe was established in order to coordinate ICL Fertilizers' activities in Europe.

- In the framework of ICL Industrial Products, the management and marketing in areas of industrial chemicals were consolidated in Israel and worldwide and ICL's research institute, Tami, was transferred into the management of ICL Industrial Products.
- Responsibility was transferred to ICL Performance Products for the general operations relating to food-grade phosphoric acid, which is manufactured in Israel. In addition, a unit was established that coordinates all of the Company's activities with regard to specialty phosphates.
- Management teams were established for these segments that are responsible for the management of the business units in the segments. At the same time, in regions where ICL has broad operations, a regional manager is also appointed to coordinate operations and exploit synergies between the segments (in China, Brazil and North America). In these places, ICL is in the process of consolidating management of its various operations into a single headquarters. (for instance, Supresta's headquarters was merged and transferred to St. Louis, together with the North American Performance Products headquarters).
- Two executive vice-presidents have been appointed: An Executive Vice-president for Business Development, Mergers and Strategy and an Executive Vice-president and Chief Operations Officer (COO). The Board of directors has appointed Mr. Asher Grinbaum the COO as the chief risks officer (CRO) for the Company.

Against the backdrop of the global economic crisis, the Company is reexamining the method of exercising its strategy, and adjusting it to the new conditions that have come into being.

5.9 Financial Information Regarding Geographical Segments

For information regarding geographical segments see note 5 to the financial statements for 2008.

5.10 Risk Factors⁷⁶

Macroeconomic risks

5.10.1 Currency exchange rate fluctuation

The multinational nature of ICL's activities exposes the Company to the impact of currency exchange rate fluctuation. ICL's financial statements are prepared in dollars. ICL's sales are made in a variety of currencies, primarily in dollars and euros. The portion of ICL's sales made in currencies other than the dollar exposes ICL to fluctuations in currency exchange rates of these currencies versus the dollar. Revenue and expenses of consolidated companies overseas, in the local non-dollar currency which is their functional currency, do not represent exposure. On the other hand, revenue and expenses of these companies in dollars expose these companies to fluctuations in currency exchange rates of the dollar versus their functional currencies.

A portion of ICL's expenses in Israel are incurred and paid in NIS. Therefore, ICL is exposed to strengthening of the currency exchange rate of the NIS relative to the dollar (appreciation of the NIS). Some of ICL's expenses outside of Israel are incurred and paid in the local currency, specifically the euro. Therefore, ICL is exposed to strengthening of the currency exchange rate of the various currencies, specifically the

⁷⁶ This section includes forward-looking information regarding risk factors, whose occurrence will negatively impact the Company's results. This information is based on estimations by the Company's management as of the date of this report regarding the Company, its area of activity and the market in general. Forward-looking information, as noted, is by definition uncertain information regarding the future, and in the event of a change in the estimations of the Company regarding these factors, in whole or in part, actual results will differ materially from those results projected or implied by this information.

Euro, relative to the dollar. ICL's strategy is to partially hedge against this exposure according to market conditions and projections regarding currency exchange rate developments.

For additional details regarding exposure to currency exchange rate volatility and the Company's hedging strategy see section 9 of the Board of Directors' report.

5.10.2 Interest rate increase and banking legislation

A portion of the Company's liabilities bear interest at variable rates. The Company is exposed to the cash flow risk of rising interest rates, which would increase its financing expenses and adversely affect its results.

The directives of the Supervisor of Banks regarding individual borrowers and borrowing groups may set limitations on the amounts of loans that the Company can receive from Israeli banks. The Supervisor of Banks established limitations regarding the amount of credit of a group of borrowers relative to the banks' capital. ICL, the Israel Corporation, and the Ofer Group are considered one borrowing group. ICL today has the ability to borrow from overseas banks, and from non-bank institutions in Israel and overseas.

5.10.3 Crisis in the financial markets

A crisis in financial markets could cause a reduction in the international sources of credit available for the purpose of financing commercial operations. The impact of such a crisis might be expressed in terms of availability of credit to the Company and its customers, and of the price of credit.

5.10.4 War or acts of terror

War or acts of terror in the locations where the Company operates are likely to negatively impact the Company. This impact may manifest itself in production delays, distribution delays, loss of property, injury to employees, and appreciation of insurance premiums. In addition, the Company's plants are likely to be targets of terrorist acts due to the chemicals they store. The Company does not have property insurance against war or acts of terror, other than the State's insurance which covers only physical property damage, without accounting for reinstatement values.

It should be noted that since the construction of the Company's initial facilities in the 1950's, the Company has never suffered from any disturbances as the result of war or acts of terror mentioned above.

5.10.5 Activities in various countries around the world

The Company is a multinational company exposed to economic, political and legislative conditions and risks in the countries in which the Company maintains facilities. The Company is exposed to a range of business risks and its success is dependant on, among other things, the Company's ability to contend with changes in these economic, political and legislative conditions. Legislative changes may increase the Company's expenses or may influence demand for its products. In addition, legislative changes, including, for example, in the area of taxation, intellectual property, import and manufacturing licenses, or environmental protection regulations, are likely to cause changes in Company costs and demand for its products.

Industry risks

5.10.6 Sales of fertilizer products are subject to the influence of many factors that are beyond ICL's control, including the entire economic environment, prices of agricultural products, government policies, weather and others.

1. Most of the fertilizer products of the Company are sold to growers of agricultural products. Fertilizer sales may be harmed as a result of decline in agricultural produce prices, availability of credit, or other events that cause farmers to plant less and consequently reduce their use of fertilizers. Agricultural produce price decline leads to a drop in produced quantities and can cause a decrease in demand for fertilizers and lower prices. These phenomena are likely to affect the Company's business, its economic condition and the success of its future plans.

2. Government policies, and specifically, subsidy levels, may affect the amount of agricultural crops and as a result, sales of fertilizer products. As a rule, reducing agricultural subsidies or increasing subsidies to local fertilizer manufacturers, in a country to which ICL sells its products, will likely have a negative impact on ICL Fertilizers' business.
3. Weather may negatively impact sales of ICL Fertilizers' products. The agricultural industry is heavily affected by local weather conditions. Conditions such as heavy storms, long periods of drought, floods, or extreme seasonal temperatures are likely to affect the local crop's quality and yield and cause a reduction in the use of fertilizers. Loss of sales in an agricultural season in a target country as a result of weather-related events can cause sales to be lost for the whole year.

Reduction in crops due to price decline or changes in subsidy levels as stated above, are likely to have a short-term effect on consumption of fertilizers in some country or another. In the long term, the need to increase agricultural yields and particularly grains in order to feed the population requires a policy that supports the agricultural sector and encourages this trend.

- 5.10.7 Sales of ICL Industrial Products' products are affected by various factors that are not within its control, including dependence upon electronics markets and legislative amendments in the areas of use of its products. For instance, a large proportion of ICL Industrial Products' products are sold for use as flame retardants. This area is subject to legislative amendment around the world, which can restrict certain uses of flame retardants. In this regard, see also section 4.2.16.2 above. Sale of oil drilling products depends on the extent of operations in the oil drilling market, mainly in deep drillings in the high seas, and on the decisions of oil companies regarding rates of production and areas of production of oil and gas. Sale of products for use in swimming pools is influenced by weather. Cold weather during the pool season of April through September affects the level of consumption and supply of chemicals for the treatment of swimming pools.

A large portion of ICL Industrial Products' products are used as intermediaries for end-products; for example a significant portion of the company's flame retardants are added to plastic components in electronic devices, including personal computers and televisions. Decline in demand for these consumer devices will likely negatively impact the sales of ICL Industrial Products.

- 5.10.8 Sales of ICL Performance Products' products are influenced by factors that are outside of its control, including a recession or slow-down in the global economy. The Company has a high production component in Europe, and a large portion of its sales are effected in Europe in Euros. Some of the Company's competitors are local manufacturers outside of Europe. The revaluation of the euro exchange rate vis-à-vis the dollar increases the competitive edge of these competitors.

5.10.9 **Subjection to legislative and licensing restrictions**

1. ICL, as a company active in the field of industrial chemicals, is significantly affected by legal rulings and licensing authorities in the areas of environmental protection and safety. In recent years, there has been a significant increase in stringency of legislative directives and regulatory requirements in these areas, in Israel and throughout the world. Standards that will be adopted in the future are likely to affect ICL and change its methods of operation. In addition, some of the Company's licenses are for limited periods and require renewal from time to time. These permit renewals is not certain and it is possible that their renewal will be made dependant upon additional conditions. For further details see the subsections titled "Limitations on and regulation of the Corporation" in sections 4 and 5 above including 4.1.15, 4.2.16, 4.3.16 and 5.7.
2. Legislative changes throughout the world are likely to prohibit or restrict use of the Company's products, due to environmental protection, health or safety considerations.

5.10.10 Exposure relating to environmental protection and safety

From time to time the Company is exposed to legal proceedings, both civil and criminal, as a result of alleged environmental contamination caused by certain ICL facilities.

In addition, from time to time examinations and investigations are conducted by enforcement authorities in Israel and throughout the world. As at the date of this report, in the Company's estimation, material impacts on the Company's results are not anticipated from any of the examinations currently being conducted.

Furthermore, the Company is from time to time exposed to claims alleging physical or property damage, which may cause the Company financial harm. In addition, some of the manufacturing or marketing activities (and sometimes transportation and storage as well) entail safety risks that ICL attempts to minimize, but is not able to eliminate. In various countries, such as the State of Israel, legislation exists which can impose liability on the Company irrespective of its actual intent or negligence. Other laws place responsibility on defendants jointly and severally, and sometimes retroactively, and therefore can cause the Company to be liable for activities done jointly with others and at times by others. The Company may also be found liable for claims regarding land that it mined or activities that the Company conducted within its premises, after such activities have ceased. With regard to environmental matters, the Company has \$100 million in insurance coverage for certain exposures.

5.10.11 Third party liability and product liability

The Company is exposed to risk of liability related to damage caused to third parties by its own operations or by its products. The Company has insurance coverage for its operations in the amount of up to \$350 million per incident and for product liability in the cumulative amount of up to \$350 million per insurance year. There is no certainty that this insurance will fully cover all damage for such liability. Likewise, sale of faulty products by the Company might give rise to recall of products by the Company or by its customers which used the products. The costs of such recall might not be covered.

5.10.12 Pensions and health insurance

Some of the Company's employees in Israel and overseas have pension and health insurance arrangements that are the Company's responsibility. Against some of these liabilities, the Company has monetary reserves that are invested in financial channels. Changes in life expectancy, changes in the capital market or changes in other parameters by which undertakings to employees and retirees are calculated, and statutory amendments could increase the Company's net liability for this item.

5.10.13 Volatility

A portion of the activities of ICL are characterized by volatility. This volatility is caused by entry of new products into the market, vendors exiting the market, changes in supply of the product and changes in demand. These fluctuations may harm the Company's profitability.

Risks unique to the Company

5.10.14 Concessions and Permits

ICL extracts potash and sodium chloride in Spain and England pursuant to permits and concessions in those countries. Furthermore, the Company mines phosphate rock from phosphate deposits in the Negev Desert in accordance with a concession from the State of Israel. Loss or impairment of these concessions or permits would cause harm to the Company. For details regarding these concessions and permits see section 4.1.15(a) above.

5.10.15 Natural Disasters

The Company is exposed to natural disasters such as flooding, earthquake, and other natural disasters that may cause material damage to its business. The Company has insurance covering this exposure.

Some of ICL's plants in Israel are located on the African-Syrian Rift, a seismically active area.

In recent years sinkholes and underground cavities have been discovered in the area of the Dead Sea, which could cause harm to the plants.

In one of the Dead Sea evaporation ponds' dikes operated by a subsidiary of ICL Fertilizers, there is seepage of brines from within the pond and cracks have appeared in the dike. There is also a fear that cavities might appear under the dike. If the dike is breached, the Company might lose the solutions in the large evaporation pond. For additional details see section 4.1.1 above.

In the area of Sodom, where many of ICL's plants are located, there are occasional flash floods in the stream-beds. Heavy flash floods occurred in October 2004, causing property damage and loss of profits. The Company has insurance coverage that covers these types of damage, subject to payment of deductibles.

The Company has underground mines in England and Spain. Water leakages into these mines might cause disruptions to mining, and loss of the mine. The Company does not have property insurance for the underground property of the mine in England.

5.10.16 Water level in Pond 150

In conjunction with the evaporation process, salt is precipitating in evaporation pond number 150 at the Dead Sea (which is the central evaporation pond in the solar evaporation pond system) in a layer growing by approximately 20 centimeters per year. The precipitated salt causes a reduction in the volume of brine in the pond. In order to overcome this phenomenon, the water level of the pond must be raised. Failure to raise the water level as stated above will cause a reduction in the production capacity of ICL Fertilizers. For further details regarding the water level in pond 150 see section 4.1.18(a) above.

5.10.17 Price of water and electricity

The Company's phosphate facilities use large quantities of water purchased from the Mekorot Company at prices set by the State. If these prices rise significantly, the Company's costs will rise as well.

In Sodom, the Company obtains water from an independent system that is not part of the national water system. A shortage of water in the water sources in proximity to the plants, will force ICL Fertilizers to seek water sources located further away at higher cost.

The Company's plants in Israel and overseas consume large amounts of energy. Significant price increases for energy, or energy shortages, in Israel will affect production costs and/or quantities.

5.10.18 The Sea Canal

The State of Israel occasionally evaluates the possibility of constructing a canal from the Red Sea or the Mediterranean Sea to the Dead Sea, for purposes of energy production, desalination and raising the Dead Sea's water level. Such a canal would likely change the composition of the Dead Sea. Such a change in water composition might negatively impact the production of ICL plants. (In this regard, see also section 4.1.18(b)).

5.10.19 Labor Disputes

ICL from time to time experiences labor disputes, slowdowns and strikes. Most of ICL's employees are subject to collective agreements. Lengthy slowdowns or strikes at any of ICL's plants would likely cause non-supply of products that had already been ordered. In addition, due to the interdependency of the ICL plants, slowdowns or strikes in any one ICL plant is likely to have a material impact on ICL. The Company has insurance coverage against part of the cost of labor stoppages in the context of the Strike Fund of the Manufacturers' Association (the "Mutual Employers Fund").

5.10.20 Dependence on seaports, transportation and loading in Israel

Approximately one-half of the net sales of the Company are sales of bulk products characterized by large quantities. Most of this production quantity is shipped from two seaports in Israel from dedicated facilities. It is not possible to ship large quantities in bulk from other facilities. Any significant mishap with regard to the seaport facilities or a strike of port workers would likely create difficulties in exporting goods overseas and harm sales.

The following are the Company's estimates of level of impact of these risk factors on the activities of ICL.

It should be noted that the Company's estimations of level of influence of a risk factor on the Company below reflect the level of influence of that risk factor assuming the risk factor occurs, and does not reflect any estimation of or give weight to the likelihood of

occurrence of that risk factor. In addition, the order of appearance of the risk factors above and below is not according to the inherent risk of each factor or the likelihood of its occurrence.

[Reexamine the decision regarding the level of impact]

	Level of influence of the risk factor on the Company		
	Low influence	Medium influence	High influence
Macroeconomic risks			
Currency exchange rate fluctuation (section 5.10.1)	V		
Increase in interest rate and banking legislation (section 5.10.2)	V		
Crisi in financial markets (section 5.10.3)		V	
War or terror operations (section 5.10.4)	V		
Activities in various countries around the world (section 5.10.5)		V	
Industry risks			
Impacts on sales of fertilizers (product prices, government policies and weather) (section 5.10.6)		V	
Impacts on sales of ICL Industrial Products products (product prices, government policies relating to use of flame retardants, etc.) (section 5.10.7).	V		
Impact on sale of ICL Performance Products products (section 5.10.8)	V		
Subjection to legislative and licensing restrictions (section 5.10.9)		V	
Exposure relating to environmental protection and safety (section 5.10.10)		V	
Third party liability and product liability (section 5.10.11)		V	
Changes in pension and health insurance calculation coefficients (section 5.10.12)	V		
Seasonality and volatility (section 5.10.13)	V		
Special Risks			
Concessions and permits (section 5.10.14)			V
Natural disasters (section 5.10.15)	V*		
Water level in Pond 150 (section 5.10.16)		V	
Price of water and energy (section 5.10.17)		V	
The Sea Canal (section 5.10.18)	V		
Labor Disputes (section 5.10.19)	V		
Dependence on seaports, transportation and loading in Israel (section 5.10.20)		V	

(*) Taking into account the Company's insurance coverage.