

**TRANSLATION FROM THE HEBREW. THE BINDING  
VERSION IS THE ORIGINAL HEBREW VERSION**

**Israel Chemicals Ltd.**

**Condensed Consolidated Interim  
Financial Statements  
(Unaudited)**

**As at March 31, 2008  
(In Dollars)**

**Condensed Consolidated Interim Financial Statements as at March 31, 2008 (Unaudited)**

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**Somekh Chaikin** Telephone  
KPMG Millennium Tower  
17 Ha'arba'a Street, PO Box 609  
Tel Aviv 61006 Israel

972 3 684 8000  
Fax 972 3 684 8444  
Internet [www.kpmg.co.il](http://www.kpmg.co.il)

**The Board of Directors**  
**Israel Chemicals Ltd.**

Dear Sirs,

**Review of unaudited condensed consolidated interim financial statements as at March 31, 2008**

At your request, we have reviewed the condensed consolidated interim balance sheet of Israel Chemicals Ltd. as at March 31, 2008, and the condensed consolidated interim statement of income, the condensed consolidated interim statement of recognized income and expenses and the condensed consolidated interim statement of cash flows for the three-month period then ended.

Our review was conducted in accordance with procedures prescribed by the Institute of Certified Public Accountants in Israel. These procedures included inter alia, reading the said financial statements, reading the minutes of shareholders' meetings and of meetings of the Board of Directors and its committees, as well as making inquiries of persons responsible for financial and accounting matters.

Since the review performed is limited in scope and does not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the said condensed consolidated interim financial statements.

In the course of our review, nothing came to our attention which would indicate the necessity of making material modifications to the said statements, in order for them to be in conformity with IAS 34, Interim Financial Reporting and in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

Somekh Chaikin  
Certified Public Accountants (Isr.)

May 26, 2008

**Consolidated Balance Sheets as of**

	<b>March 31 2008</b>	<b>March 31 2007</b>	<b>December 31 2007</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>US\$ thousands</b>	<b>US\$ thousands</b>	<b>US\$ thousands</b>
<b>Current assets</b>			
Cash and cash equivalents	<b>61,005</b>	139,132	58,204
Short-term investments, deposits and loans	<b>122,967</b>	84,304	73,345
Trade receivables	<b>1,194,964</b>	767,642	962,113
Other receivables and debit balances, including derivatives	<b>152,619</b>	97,704	124,371
Income taxes refundable	<b>15,271</b>	10,181	8,825
Inventories	<b>1,009,393</b>	800,833	970,570
<b>Total current assets</b>	<b>2,556,219</b>	1,899,796	2,197,428
<b>Long-term investments and receivables</b>			
Associated companies and another company	<b>46,391</b>	33,069	38,349
Long-term deposits and receivables	<b>111,148</b>	98,893	104,909
Inventories - non-current	<b>49,179</b>	32,076	30,502
Deferred taxes, net	<b>64,731</b>	61,381	85,759
<b>Total long-term investments and receivables</b>	<b>271,449</b>	225,419	259,519
<b>Property, plant and equipment</b>	<b>1,857,888</b>	1,647,305	1,804,052
<b>Intangible assets</b>	<b>580,882</b>	255,852	484,356
<b>Total non-current assets</b>	<b>2,710,219</b>	2,128,576	2,547,927
<b>Total assets</b>	<b>5,266,438</b>	4,028,372	4,745,355

**Consolidated Balance Sheets as of**

	<b>March 31 2008</b>	<b>March 31 2007</b>	<b>December 31 2007</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>US\$ thousands</b>	<b>US\$ thousands</b>	<b>US\$ thousands</b>
<b>Current liabilities</b>			
Credit from banks and others	<b>700,751</b>	488,550	622,704
Trade payables	<b>447,436</b>	306,517	428,266
Provisions	<b>30,596</b>	22,904	29,185
Other payables, including derivatives	<b>471,634</b>	350,186	400,108
Dividend payable	<b>115,000</b>	283,411	-
Income taxes payable	<b>97,992</b>	6,649	62,000
<b>Total current liabilities</b>	<b>1,863,409</b>	1,458,217	1,542,263
<b>Long-term liabilities</b>			
Loans from banks and others	<b>546,403</b>	364,016	626,542
Debentures	<b>125,000</b>	125,000	125,000
Provisions	<b>43,273</b>	34,577	36,886
Deferred taxes, net	<b>133,470</b>	173,225	171,545
Employee benefits	<b>407,650</b>	360,323	376,201
<b>Total long-term liabilities</b>	<b>1,255,796</b>	1,057,141	1,336,174
<b>Total liabilities</b>	<b>3,119,205</b>	2,515,358	2,878,437
<b>Equity</b>			
Share capital	<b>540,779</b>	540,779	540,779
Share premium	<b>81,396</b>	81,396	81,396
Capital reserves	<b>128,562</b>	10,073	78,955
Retained earnings	<b>1,323,614</b>	879,602	1,101,564
Treasury shares	<b>(2,197)</b>	(2,197)	(2,197)
<b>Total equity attributed to the Company's equity interests</b>	<b>2,072,154</b>	1,509,653	1,800,497
<b>Minority interest in equity</b>	<b>75,079</b>	3,361	66,421
<b>Total equity</b>	<b>2,147,233</b>	1,513,014	1,866,918
<b>Total liabilities and equity</b>	<b>5,266,438</b>	4,028,372	4,745,355

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Nir Gilad  
Chairman of the Board of Directors

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Akiva Mozes  
Chief Executive Officer

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Avi Doitchman  
CFO

Date the financial statements were approved: May 26, 2008

The notes to the condensed interim consolidated financial statements are an integral part thereof.

**Consolidated Statement of Income for the**

	Three month-period ended March 31		Year ended December 31
	2008	2007	2007
	(Unaudited)	(Unaudited)	(Audited)
	US\$ thousands	US\$ thousands	US\$ thousands
Sales	1,528,133	882,924	4,103,179
Cost of sales	797,567	582,192	2,556,191
<b>Gross profit</b>	<b>730,566</b>	300,732	1,546,988
Research and development expenses, net	13,929	9,389	39,152
Selling, transportation and marketing expenses	195,313	123,386	599,882
General and administrative expenses	55,804	33,866	161,852
Other expenses	1,472	805	6,747
Other income	(947)	(278)	(3,211)
<b>Operating income</b>	<b>464,995</b>	133,564	742,566
Financing expenses	67,423	25,316	116,859
Financing income	(11,529)	(9,127)	(40,238)
<b>Financing expenses, net</b>	<b>55,894</b>	16,189	76,621
Share in income of associated companies	5,280	1,022	3,969
<b>Income before taxes on income</b>	<b>414,381</b>	118,397	669,914
Taxes on income	61,182	28,947	119,730
<b>Income for the period</b>	<b>353,199</b>	89,450	550,184
<b>Attributable to:</b>			
Equity holders of the Company	346,655	90,863	553,440
Minority interest	6,544	(1,413)	(3,256)
<b>Income for the period</b>	<b>353,199</b>	89,450	550,184
<b>Earnings per share attributable to equity holders of the Company:</b>			
Basic earnings per share	0.270	0.071	0.431
Fully diluted earnings per share	0.269	0.071	0.430

The notes to the condensed interim consolidated financial statements are an integral part thereof.

**Consolidated Statement of Recognized Income and Expenses for the**

	<b>Three month-period ended</b>		<b>Year ended</b>
	<b>March 31</b>		<b>December 31</b>
	<b>2008</b>	<b>2007</b>	<b>2007</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>US\$ thousands</b>	<b>US\$ thousands</b>	<b>US\$ thousands</b>
Foreign currency translation differences in respect of foreign activities	<b>47,806</b>	7,150	65,417
Changes in fair value of financial assets available for sale, net	<b>207</b>	39	347
Defined benefit plans actuarial gains (losses)	<b>(14,844)</b>	-	20,633
Taxes in respect of revenues and expenses recorded directly in equity	<b>3,259</b>	(10)	378
<b>Net income recognized directly in equity</b>	<b>36,428</b>	7,179	86,775
<b>Income for the period</b>	<b>353,199</b>	89,450	550,184
<b>Total recognized income for the period</b>	<b>389,627</b>	96,629	636,959
<b>Attributable to:</b>			
Equity holders of the Company	<b>381,886</b>	97,957	640,277
Minority interest	<b>7,741</b>	(1,328)	(3,318)
<b>Total income for the period</b>	<b>389,627</b>	96,629	636,959

The notes to the condensed interim consolidated financial statements are an integral part thereof.

**Consolidated Statements of Cash Flows for the**

	Three month-period ended March 31		Year ended December 31
	2008	2007	2007
	(Unaudited)	(Unaudited)	(Audited)
	US\$ thousands	US\$ thousands	US\$ thousands
<b>Cash flows from operating activities</b>			
Income for the period	353,199	89,450	550,184
Adjustments:			
Depreciation and amortization	44,065	44,323	166,137
Interest expenses, net	15,870	12,675	64,782
Share in income of associated companies	(5,280)	(1,022)	(3,969)
Gains on disposal of property, plant and equipment	(187)	(11)	(375)
Gains on available for sale securities	-	(51)	(3)
Share-based payment transactions	3,642	841	9,155
Revaluation on assets and liabilities denoted in foreign currency	(3,565)	443	(2,490)
Taxes on income	61,182	28,947	119,730
	<b>468,926</b>	<b>175,595</b>	<b>903,151</b>
Change in inventories	(42,666)	6,973	(109,977)
Change in trade receivables and other receivables	(233,193)	(45,955)	(197,265)
Change in trade payables and other payables	49,901	9,551	121,800
Change in provisions and employee benefits	17,670	4,195	34,414
	<b>260,638</b>	<b>150,359</b>	<b>752,123</b>
Income taxes paid	(39,530)	(42,706)	(117,553)
Interest received	3,520	1,570	3,905
Interest paid	(18,834)	(18,497)	(67,768)
<b>Net cash provided by operating activities</b>	<b>205,794</b>	<b>90,726</b>	<b>570,707</b>
<b>Cash flows from investing activities</b>			
Long-term deposits	(6,180)	-	-
Proceeds from disposal of property, plant and equipment	933	672	4,156
Short-term investments and deposits, net	(41,318)	37,607	81,658
Business combination less cash acquired	(95,638)	-	(354,821)
Acquisition of minority interest	(53)	-	(346)
Investment in associated company	(2,342)	-	-
Acquisition of property, plant and equipment	(67,069)	(47,271)	(189,077)
Investment grant received	-	12	2,859
Acquisition of intangible assets	(3,373)	(12,567)	(29,336)
Proceeds from disposal of long-term deposits	594	859	5,226
<b>Net cash used in investment activities</b>	<b>(214,446)</b>	<b>(20,688)</b>	<b>(479,681)</b>

The notes to the condensed interim consolidated financial statements are an integral part thereof.



**Consolidated Statements of Cash Flows for the**

	<b>Three month-period ended</b>		<b>Year ended</b>
	<b>March 31</b>		<b>December 31</b>
	<b>2008</b>	<b>2007</b>	<b>2007</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>US\$ thousands</b>	<b>US\$ thousands</b>	<b>US\$ thousands</b>
<b>Cash flows from financing activities</b>			
Proceeds from equity issued to minority in consolidated company	-	12,251	-
Dividend paid	-	-	(545,135)
Receipt of long term loans	<b>82,130</b>	96,774	673,537
Repayment of long term loans	<b>(166,552)</b>	(59,156)	(188,392)
Short-term liabilities to banks and others, net	<b>94,240</b>	(31,082)	(24,896)
<b>Net cash provided by (used in) financing activities</b>	<b>9,818</b>	18,787	(84,886)
<b>Increase in cash and cash equivalents</b>	<b>1,166</b>	88,825	6,140
Cash and cash equivalents at the beginning of the period	<b>58,204</b>	50,085	50,085
Effect of exchange rate on cash and cash equivalents	<b>1,635</b>	222	1,979
<b>Cash and cash equivalents at the end of the period</b>	<b>61,005</b>	139,132	58,204

The notes to the condensed interim consolidated financial statements are an integral part thereof.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 1 – The Reporting Entity**

Israel Chemicals Ltd. (hereinafter – “the Company”), whose shares are traded on the Tel-Aviv Stock Exchange, the Company’s registered office is 23 Aranha St., Tel-Aviv, Israel, and its subsidiaries and associated companies (hereinafter – “the Group”), are a multi-national group operating primarily in the fertilizers and special chemicals sectors, in three main operating segments: fertilizers (including potash and phosphates), industrial products and performance products. In addition, the Group has activities in a number of other segments.

The Group’s activities are based principally on natural resources – potash, bromine, magnesium and salt produced from the Dead Sea and phosphate rock mined from the State’s southern region, all in accordance with concessions and licenses from the State of Israel. The activities are also based on potash and salt mines in the United Kingdom and Spain, as well as on lease agreements and licenses from the appropriate authorities in these countries. The Company is engaged in the extraction of these minerals and the sale thereof throughout the world, as well as in the development, manufacture and marketing of other products based primarily on these raw materials. The Company and some of the Group companies were declared a monopoly with respect to some of the products it manufactures and/or sells in Israel.

The Group’s main production facilities are located in Israel, Germany, the United States, the Netherlands, Spain, the United Kingdom, China, Brazil and France. In addition, the Group has additional production facilities in Austria, Belgium, Turkey, Argentina and Australia.

The Group’s activities outside of Israel are mainly in the manufacture of products using or based on the Group’s activities in Israel or in closely related areas. About 95% of the Group’s output is sold to customers outside of Israel.

The Company is a subsidiary of Israel Corp. Ltd.

**Note 2 - Basis of Preparation of the Financial Statements**

**A. Declaration of compliance with International Financial Reporting Standards (IFRS)**

The condensed consolidated interim financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). These are the first condensed consolidated interim financial statements the Group has prepared for part of the period included in the first annual financial statements prepared according to IFRS, and in which IFRS 1, “First-Time Adoption of IFRS Standards” was applied.

The condensed consolidated interim financial statements were prepared in accordance with IAS 34, “Interim Financial Reporting” and do not include all of the information required in complete annual financial statements. These statements should be read together with the Company’s financial statements as at December 31, 2007 and for the year then ended.

The impact of the transition to IFRS on the Company’s financial position, results of operations and cash flows is described in the notes.

The condensed consolidated interim financial statements were approved for publication by the Company’s Board of Directors on May 26, 2008.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 2 - Basis of Preparation of the Financial Statements (cont'd)****B. Functional currency and presentation currency**

The dollar is the currency representing the main economic environment in which the Company operates and, accordingly, the dollar constitutes the Company's functional currency. Currencies other than the dollar constitute foreign currency.

**C. Basis of measurement**

The statements were prepared on the basis of historical cost, with the exception of the following assets and liabilities that are presented according to fair value: derivative financial instruments and financial instruments classified as available for sale.

Non-current assets available for sale are presented based on the lower of the amortized cost or the fair value net of selling costs.

**D. Use of estimates and judgment**

In preparation of the financial statements in accordance with IFRS, Company management is required to use judgment when making estimates, assessments and assumptions that affect implementation of the policies and the amounts of assets, liabilities, income and expenses. Actual results are likely to be different from these estimates.

The estimates and the assumptions used for preparing the financial statements are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period during which the estimate was revised and in every future period affected.

Regarding a change in estimate – see Note 7B.

**E. Capital management – goals, procedures and processes**

Management's policy is to maintain a strong capital base in order to ensure the Company's ability to continue its activities so that it will be able to produce an appropriate yield to its shareholders, and to comply with financial conditions related to the level of capital as required by certain lenders, and for purposes of supporting its future business growth. The Board of Directors monitors the rate of return on the capital, which is defined as net income divided by the Company's total outstanding shares. The Board of Directors also monitors the amounts of the dividends distributed to the ordinary shareholders.

**Note 3 - Significant Accounting Policies**

The condensed consolidated interim financial statements were prepared on the basis of International Financial Reporting Standards (hereinafter, "IFRS"), which have been published and are valid or can be adopted early prior to the date of the Group's first annual report in accordance with IFRS, December 31, 2008, and according to which the Company has established its accounting policies.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 3 - Significant Accounting Policies (cont'd)**

IFRS that will be valid or that may be adopted early for annual financial statements for the year ending December 31, 2008 are subject to changes and publication of additional clarification(s) and therefore, they cannot be determined with certainty. Accordingly, the accounting standards for this year, which are relevant to this interim information, will be determined conclusively only when the first annual statements are prepared according to IFRS, as at December 31, 2008.

Preparation of the condensed consolidated interim financial statements in accordance with IAS 34, led to changes in accounting policies, in comparison with the last annual financial statements, which were prepared in accordance with generally accepted accounting principles in Israel. The accounting standards described below were applied consistently to all periods presented in these condensed consolidated interim financial statements. They were also applied in preparation of the opening balance sheet as of January 1, 2007, for purposes of the transition to IFRS, as required by IFRS 1. The impact of the transition from generally accepted accounting principles in Israel to IFRS is described in Note 9.

In addition, these financial statements are prepared in accordance with the provisions of Part D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The accounting policies according to IFRS are applied consistently in the Group companies.

**A. Basis for Consolidation****1. Subsidiary companies**

Subsidiary companies are entities that are controlled by the Group. Control exists when the Group has the ability to determine the financial and operational policy of the entity in order to derive benefit from its activities. When examining control, potential voting rights that can be exercised immediately are taken into account. The financial statements of the subsidiary companies are included in the consolidated financial statements from the date control was acquired until the date control ceases to exist. (The accounting policy of the subsidiary companies was changed as necessary for it to correspond with the accounting policy adopted by the Company).

**2. Associated companies**

Associated companies are entities regarding which the Group has significant influence over their financial and operational policy, however control has not been obtained. Associated companies are accounted for using the equity method of accounting. The consolidated financial statements include the Group's share in the revenues and expenses of investee entities accounted for using the equity method of accounting after making the adjustments necessary to conform the accounting policy to that of the Group from the date the significant influence exists and up to the date the said significant influence no longer exists. Where the Group's share in the losses exceeds the value of the Group's rights in an entity accounted for using the equity method of accounting, the book value of such rights (including any long-term investment) is written down to zero and the Group does not recognize additional losses, unless the Group is committed to support the investee entity or if the Group paid amounts for it.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 3 - Significant Accounting Policies (cont'd)****A. Basis for Consolidation (cont'd)****3. Jointly controlled entities treated in accordance with the proportionate consolidation method**

Jointly controlled entities are entities with respect to which the Group has joint control over their activities, which is obtained by means of a contractual arrangement requiring the joint consent of the other investors in connection with strategic, financial and operational decisions. Jointly controlled entities are treated in accordance with the proportionate consolidation method from the date on which the joint control is obtained and up to the time such joint control no longer exists. The consolidated financial statements include the Group's proportionate share in the assets, liabilities, revenues and expenses of the proportionately consolidated companies based on the rates of the holdings in those companies, after the adjustments necessary in order to conform their accounting policies to those of the Group.

**4. Intercompany balances and transactions eliminated in the consolidation**

Intercompany balances within the Group and unrealized income and expenses deriving from intercompany transactions are eliminated in preparation of the condensed consolidated financial statements. Unrealized income deriving from transactions with associated companies was eliminated against the investment based on the Group's rights in these investments.

**5. Minority interest**

The minority interest represents the net interest in the assets of subsidiaries that is allocated to rights not owned by the Company, whether directly or indirectly through subsidiaries and regarding which the Company has not agreed to additional conditions with the holders of those rights that would cause the total group to be contractually obligated with respect to those rights that meet the definition of a financial equity obligation. The minority interest is presented in the consolidated balance sheet in the equity section, separate from the equity attributable to the Company's shareholders. The minority interest in the Group's results is presented in the consolidated statement of income as an allocation of the total income or loss for the year between the minority interest and the Company's shareholders.

Where the losses attributable to the minority interest exceed the minority's interest in the subsidiary's equity, such excess along with any additional losses applying to the minority interest are recorded against the Group's rights, except where the minority interest is bound to make and it is capable of making an additional investment to cover the losses. If the subsidiary subsequently reports income, such income is allocated to the Group's rights until the minority's interest in the losses previously absorbed by the Group is recovered.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 3 - Significant Accounting Policies (cont'd)****B. Foreign Currency**1. Transactions in foreign currency

Transactions in foreign currency are translated into the Group's functional currency based on the exchange rate in effect on the dates of the transactions. Monetary assets and liabilities denominated in foreign currency on the report date are translated into the Group's functional currency based on the exchange rate in effect on that date. Exchange rate differences in respect of monetary items is the difference between the net book value in functional currency at the beginning of the period plus the payments during the period and the net book value in functional currency translated based on the rate of exchange at the end of the period. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency based on the exchange rate in effect on the date the fair value was determined. Exchange rate differences deriving from re-translation are recognized in the statement of income.

2. Foreign activities

The assets and liabilities of foreign activities, including goodwill and adjustments to fair value created upon acquisition, were translated into dollars according to the rates of exchange in effect on the balance sheet date. Income and expenses of foreign activities were translated into dollars according to the rates of exchange that were in effect on the transaction dates.

Exchange rate differences resulting from translation are recorded directly to equity, as of January 1, 2007, the date of transition to IFRS. According to the provisions of IFRS 1, the Group chose to zero out the accumulated translation differences for all of its foreign activities, on the transition date to IFRS.

When a foreign activity is realized, in whole or in part, the appropriate amount in the translation reserve is transferred to the income statement.

Gains and losses from translation differences deriving from loans received from or granted to foreign activities, the settlement of which is not planned and is not expected to take place in the foreseeable future, are included as part of the net investment in the foreign activities and are recorded directly to equity in a reserve for translation of foreign currency.

**C. Financial Instruments**1. Non-derivative financial instruments

Non-derivative financial instruments include investments in shares and debt instruments, trade and other receivables, cash and cash equivalents, loans, credit received, supplier credit and trade and other payables.

The initial recognition of non-derivative financial instruments is according to fair value, with the addition of, for instruments not presented at fair value through the statement of income, all attributable direct transaction costs. After the initial recognition, non-derivative financial instruments are measured as described below.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 3 - Significant Accounting Policies (cont'd)****C. Financial Instruments (cont'd)**1. Non-derivative financial instruments (cont'd)

A financial instrument is recognized when the Group accepts the contractual conditions of the instrument. Financial assets are eliminated when the contractual rights of the Group to the cash flows deriving from the financial assets expire, or when the Group transfers the financial assets to others without retaining control or effectively transfers all of the risks and rewards deriving from the asset. Acquisitions and sales of financial assets made in the usual manner are recognized on the transaction date, that is, on the date the Group undertook to buy or sell the assets. Financial liabilities are deducted when the Group's obligation as described in the contract expires or when it is paid or cancelled.

*Cash and cash equivalents*

Cash and cash equivalents include cash balances or deposits that are available for immediate withdrawal.

*Financial assets available for sale*

The Group's investments in shares and certain debt instruments are classified as financial assets available for sale. After the initial recognition, these investments are measured based on fair value, where the changes therein, except for losses from decline in value, dividend income regarding monetary items classified as available for sale and gains or losses from changes in the exchange rate, are recorded directly in equity. When the investment is eliminated, the gains or losses accrued to equity are transferred to the statement of income.

*Others*

Other non-derivative financial instruments are measured according to amortized cost using the effective interest method, net of losses from decline in value.

2. Derivative financial instruments

The Group holds derivative financial instruments for the purpose of hedging against foreign currency risks and interest risks. Embedded derivatives are separated from the host contract and are treated separately if: (a) there is no close relationship between the economic characteristics and risks of the host contract and of the embedded derivative; (b) a separate instrument having the same terms as the embedded derivative would have met the definition of a derivative; and (c) the integrated instrument is not measured at fair value through the statement of income.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 3 - Significant Accounting Policies (cont'd)****C. Financial Instruments (cont'd)**2. Derivative financial instruments (cont'd)

Derivatives are initially recognized according to fair value and the attributable transaction costs are charged to profit and loss as incurred. After the initial recognition, the derivatives are measured at fair value, where the changes in the fair value are treated as follows:

*Economic hedge*

Hedge accounting is not applied with respect to derivative financial instruments used for an economic hedge of financial assets and liabilities denominated in foreign currency, used for an economic hedge of anticipated cash flows in foreign currency or an economic hedge of interest risks. The changes in the fair value of these derivatives are recorded on the statement of income as part of the gains and losses from foreign currency.

*Derivatives not used for hedging purposes*

The changes in the fair value of these derivatives are recorded on the statement of income immediately.

*Separated embedded derivatives*

The changes in the fair value of separated embedded derivatives are recorded on the statement of income immediately.

3. CPI-linked assets and liabilities not measured at fair value

The Group maintains balances of financial instruments linked to the CPI. In the opinion of Company management, based on the position paper published by the Israel Accounting Standards Board, there are several possible alternatives for the accounting treatment of CPI-linked financial instruments. For purposes of preparing these statements, the Company adopted the accounting treatment whereby the value of the instrument on the books and the payments derived from it are revalued during each period according to the actual increase in the CPI. The issue of measuring CPI-linked financial instruments according to international standards is under examination and the Professional Committee of the Israel Accounting Standards Board has contacted the International Financial Reporting Interpretations Committee (IFRIC) for its opinion regarding the accounting treatment of CPI-linked obligations and assets according to the international standards.

In light of that stated above, it is possible that the said accounting treatment will not be possible pursuant to the provisions of the international standards and another accounting treatment, whereby it is necessary to consider the inflationary expectations in the measurement of the financial instrument, as being more suitable (regarding this matter see the provisions of AG 7 and AG 7 to IAS 39). If it is ultimately so decided, the Company will need to examine the impact of the said decision, including the transitional rules, if any, on its financial statements and accompanying notes, as they are published or will be published, up to the time the decision concerning the international standards is received.

1. Recognition and measurement

Property, plant and equipment items are presented at cost after deducting the related amounts of investment grants and less accumulated depreciation and losses from declines in value.



**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)****Note 3 - Significant Accounting Policies (cont'd)****D. Property, Plant and Equipment**

The cost includes expenses that can be directly attributed to the purchase of the asset. The cost of assets that were constructed independently includes the cost of the materials and direct salary costs, as well as any additional cost that are directly attributable to bringing the asset to the required position and condition so that it will be able to function as management intended, as well as costs to dismantle and remove the items and to restore its location. The cost of purchased software, which is an inseparable part of operating the related equipment, is recognized as part of the cost of said equipment.

Spare parts for facilities are valued at cost determined based on the moving average method, after recording a write-down in respect of obsolescence. The portion designated for current consumption is presented in the inventory category in the property, plant and equipment section.

Where significant parts of an item of property, plant and equipment (including costs of major periodic inspections) have different life expectancies, they are treated as separate items (significant components) of such items.

Changes in a commitment to dismantle and remove items and to restore their location, except for changes stemming from the passage of time, are added to or deducted from the cost of the asset in the period in which they occur. The amount to be deducted from the cost of the asset may not exceed its book value and the balance, if any, is to be recognized immediately in the statement of income.

**2. Subsequent costs (costs incurred after the initial recognition date)**

The cost of replacing part of an item of property, plant and equipment is recognized as part of the book value of the item if it is expected that the future financial benefit inherent in the item will flow to the Group and that its cost can be measured in a reliable manner. The book value of the part that was replaced is eliminated. Routine maintenance costs are charged to the statement of income as incurred.

**3. Depreciation**

Depreciation is charged to the statement of income according to the straight-line method over the estimated useful life of each part of the property, plant and equipment items. Leased assets are depreciated over the shorter of the lease period or the useful life of the asset. Real estate assets are not depreciated.

The estimated useful life for the current period and comparative periods is as follows:

	<u>In Years</u>
Land development, roads and structures	10–25
Facilities, machinery and equipment	10–25
Dams and pools	6–25
Heavy mechanical equipment, train cars and tanks	5–10
Office furniture and equipment, motor vehicles, computer equipment and other	3–17

The estimates regarding the depreciation method, the useful life and the scrap value are re-evaluated at a minimum at the end of every reporting year.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 3 - Significant Accounting Policies (cont'd)****E. Intangible Assets**1. Goodwill

Goodwill is created as a result of acquisition of subsidiaries (including minority acquisitions), associated companies (including acquisitions of additional rights in the associated companies) or proportionately consolidated companies.

*Acquisitions before January 1, 2007*

As part of the transition to reporting according to IFRS, the Group chose to restate according to IFRS only business combination transactions occurring after the date of transition to IFRS, January 1, 2007. Regarding acquisitions that occurred before January 1, 2007, the goodwill reflects the amount recognized by the Group, in accordance with generally accepted accounting principles in Israel. For these acquisitions, the classification and accounting treatment were not adjusted to IFRS for purposes of preparation of the Group's opening balance sheet.

*Acquisitions after January 1, 2007*

Regarding acquisitions on and after January 1, 2007, the goodwill reflects the excess of the acquisition cost over the Group's rights in the net fair value of the identified assets, liabilities and contingent liabilities of the acquired entity. Where such difference is negative (negative goodwill) it is recognized immediately in the statement of income.

*Acquisition of minority interest*

Goodwill that is created upon acquisition of minority interest in a subsidiary reflects the excess cost of the additional investment over the book value of the net assets acquired on the acquisition date.

*Subsequent measurement*

Goodwill is measured according to cost after deduction of accrued losses from declines in value. Goodwill in respect of investments in associated companies is included in the book value of the investment.

2. Research and development

Costs related to research activities undertaken for the purpose of acquiring knowledge and new scientific or technological understandings are charged to the statement of income as incurred.

Development activities related to a plan for the production of products or new processes or significant improvement of products. Costs of development activities are recognized as an intangible asset only if: it is possible to reliably measure the development costs; it is technically and commercially possible to implement the product or process; future economic benefit is expected from the product and the Group has intentions and sufficient resources to complete development of the asset and then use or sell it.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)****Note 3 - Significant Accounting Policies (cont'd)****E. Intangible Assets (cont'd)**3. Other intangible assets

Other intangible assets purchased by the Group, with a defined useful life, are measured according to cost less amortization and accrued losses from declines in value.

4. Subsequent costs

Subsequent costs are recognized as an intangible asset only when they increase the future economic benefit inherent in the asset for which they were incurred. All other costs, including costs relating to goodwill or trademarks developed independently, are charged to the statement of income as incurred.

5. Amortization

Amortization is recorded in the statement of income according to the straight-line method (except for agreements with customers that are amortized over the rate of consumption of the economic benefits expected from the asset on the basis of the projected cash flows) over the estimated useful economic life of the intangible assets, other than goodwill and intangible assets with an undefined useful life, commencing from the date they are available for use.

The estimated useful life for the current period and comparative periods is as follows:

	<u>In Years</u>
Concessions – over the balance of the concession granted to the companies	
Software costs	3–10
Trademarks	5–13
Agreements with customers	15
Agreements with suppliers	5
Patents	13–15
Non-competition agreement	5
Deferred expenses in respect of geological surveys are amortized over the useful life based on a geological estimate of the amount of the material that will be produced from the mining site.	

The estimates regarding the amortization method and useful life are reviewed, at a minimum, at the end of every reporting year.

The Group periodically examines the estimated useful life of an intangible asset that is not amortized in order to determine if events and circumstances continue to support the determination that the intangible asset has an undefined life.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 3 - Significant Accounting Policies (cont'd)****F. Leased Assets**

Leases wherein the Group bears most of the risks and rewards relating to the asset are classified as a financing lease. At the time of the initial recognition, the leased assets are measured at an amount equivalent to the lower of the fair value and the present value of the minimum lease fees. After the initial recognition, the asset is treated in accordance with the accounting policies covering such asset.

Leases of land from the Israel Lands Administration ("ILA") constitutes an operating lease. Lease fees paid in advance to the ILA are presented in the balance sheet and are charged to profit and loss over the lease period.

**G. Inventories**

Inventory is measured at the lower of cost or net realizable value. The cost of the inventory includes the costs of purchasing the inventory and bringing it to its current location and condition. In the case of work in process and finished goods, the cost includes the proportionate part of the manufacturing overhead based on normal capacity. Net realization value is the estimated selling price in the ordinary course of business, after deduction of the estimated cost of completion and the estimated costs required to execute the sale.

The cost of the inventory of raw and auxiliary materials, maintenance materials, finished goods and goods in process, is determined mainly according to the "moving average" method.

Some of the raw materials, finished goods and goods in process are in bulk. The quantities are based on estimates (which are made, for the most part, by outside experts who measure the volume and density of the inventory).

Inventory the sale of which is expected to take place in a period of more than 12 months from the balance sheet date is presented as non-current inventory, as part of investments and long-term debit balances.

**H. Capitalization of Borrowing Costs**

The costs of specific borrowing and non-specific borrowing were capitalized to qualifying assets, as defined in International Accounting Standard 23 "Borrowing Costs", during the period required for completion and establishment until the time when they are ready for their intended use. Non-specific borrowing costs were capitalized in the same manner to the investment in qualifying assets or to the part thereof that was not financed by specific borrowing using an interest rate that is the weighted-average of the cost rates in respect of those credit sources that were not capitalized specifically. Other borrowing costs are charged to the statement of income as incurred.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 3 - Significant Accounting Policies (cont'd)****I. Impairment in value****1. Financial assets**

A decline in value of a financial asset is examined when there is objective evidence that one or more events have occurred that may have had a negative impact on the estimate of the future cash flows from the asset.

The loss from impairment in the value of a financial asset measured according to depreciated cost is calculated as the difference between the book value of the asset and the present value of the estimated future cash flows, discounted using the original effective interest rate. A loss from decline in value of a financial asset classified as available for sale is calculated based on the asset's present fair value.

For material financial assets, the need to reduce the value of the asset is examined for each asset individually. For other financial assets, the need to reduce the value of the asset is examined collectively, for groups having similar credit risks.

All losses from declines in value are recorded to the statement of income. The cumulative loss relating to a financial asset classified as available for sale and previously recorded in equity, was transferred to the statement of income where there was a decline in its value.

The loss from impairment in value is cancelled when such recovery is objectively attributable to an event that occurred after recognition of the loss from impairment in value. Cancellation of a loss from impairment in value in respect of financial assets measured according to depreciated cost and of financial assets classified as available for sale that are debt instruments, is recorded to the statement of income. Cancellation of a loss from impairment in value in respect of financial assets classified as available for sale that are equity instruments, is recorded directly to the equity section.

**2. Non-financial assets**

The book value of the Group's non-financial assets, other than inventory and deferred tax assets, is examined for each reporting period in order to determine if there are signs indicating an impairment in value. If such signs exist, the estimated recoverable amount of the asset is calculated. On December 31, 2007, the transition date to IFRS, the Group conducted an examination of impairment of goodwill, intangible assets with an undefined useful life and investments in associated companies for which goodwill was recognized in the investment account. In subsequent periods, the Group conducts an annual examination of the recoverable amount for goodwill and intangible assets with an undefined useful life or that are not available for use.

The recoverable amount of an asset or a cash-producing unit is the higher of its use value or the net selling price (fair value minus selling costs), whichever is higher. When determining the use value the Group discounted the anticipated future cash flows according to the pre-tax discount rate that reflects the market evaluations regarding the time value of the money and the specific risks attributed to the asset. For purposes of testing impairment in value, the assets are grouped together into the smallest group of assets that yields cash flows from continuing use, which are essentially independent of the other assets and other groups ("cash-producing unit"). Goodwill purchased in the context of business combinations is allocated for the purpose of examining impairment in value to cash-producing units that are expected to yield benefits from the synergy of the combination.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 3 - Significant Accounting Policies (cont'd)****I. Impairment in value (cont'd)**2. Non-financial assets (cont'd)

Losses from impairment of value are recognized when the book value of the assets or of the cash-producing unit to which the asset belongs exceeds the recoverable value and are recorded to profit and loss. Losses from impairment of value that were recognized for cash-producing units are first allocated to reducing the book value of the goodwill attributed to these units and afterwards to reducing the book value of the other assets in the cash-producing unit, proportionately.

A loss from impairment in value of goodwill is not cancelled. Regarding other assets, losses from impairments of value that were recognized in previous periods are re-examined in each reporting period in order to determine if there are signs indicating that the losses have decreased or no longer exist. A loss from impairment of value is cancelled if there is a change in the estimates used to determine the recoverable value, only if the book value of the asset, after cancellation of the loss from impairment of value, does not exceed the book value, after deduction of depreciation or amortization, that would have been determined if the loss from impairment of value had not been recognized.

**J. Employee Benefits**

The Group has several post-employment benefit plans. The plans are funded primarily by deposits with insurance companies or funds managed by a trustee, and they are classified as defined contribution plans and as defined benefit plans.

1. Defined contribution plans

The Group's obligation to make deposits in a defined contribution plan is recorded as an expense to profit and loss at the time the obligation to make the deposit arises.

2. Defined benefit plans

The Group's net obligation, regarding defined benefit plans for post-employment benefits, is calculated for each plan separately by estimating the future amount of the benefit to which an employee will be entitled as compensation for his services during the current and past periods. The benefit is presented according to present value after deducting the fair value of the plan assets. The discount rate is determined according to the yield on government bonds on the report date, where their currency and maturity date are similar to the conditions obligating the Group. The calculations are performed by a licensed actuary using the "predicted eligibility unit" method.

Regarding use of a discount rate deriving from government bonds, to the best of the Company's knowledge, the issue of the discount interest rate for the actuarial calculations is being examined and it is possible that it will ultimately be decided that in Israel the proper discount interest rate is that based on corporate bonds. In that case, the amounts included in these statements will change, the actuarial liability will be decreased and the expenses for current funding of the liability will increase.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 3 - Significant Accounting Policies (cont'd)****J. Employee Benefits (cont'd)**2. Defined benefit plans (cont'd)

When on the basis of the calculations an asset is created for the Group, the asset is recognized up to the net present value of the available economic benefits in the form of a refund from the plan or by a reduction in future deposits to the plan. An economic benefit in the form of return from the plan or a reduction in future deposits will be considered available when it can be realized in the lifetime of the plan, after settlement of the obligation.

When there is a debt, as part of a minimal deposit requirement, to pay in additional amounts in respect of services provided in the past, the Company recognizes an additional liability (an increase of the net liability or a decrease of the net asset), provided that such amounts are not available as an economic benefit in the form of a refund from the plan or by a reduction in future deposits to the plan.

Where there is an improvement in the benefits granted by the plan to the employees, the portion of the increased benefits relating to the employees' past services is recorded on the statement of income based on the straight-line method over the average period up to the vesting of the benefits. If the benefits vest immediately, the expense is recorded on the statement of income immediately.

Set forth below are the reporting principles applied by the Company:

- (a) The movement in the liability in respect of a defined benefit plan for every accounting period is comprised of the following:
  - (i) Current service costs – the actuarial increase in the liability deriving from employee benefits in respect of the current period;
  - (ii) Current interest costs – the increase in the liability deriving from the passage of time;
  - (iii) Anticipated yield of the fund's assets; and
  - (iv) Exchange rate differences.
- (b) The net liability (or net assets of the pension fund) included in the balance sheet reflects the difference between the following two components, calculated as follows:
  - (i) Liability for payments – calculated on the basis of the balance of the liability as at the beginning of the period, plus current service costs and current interest costs (as described in subsection (a), above), less amounts paid during the period.
  - (ii) Fund assets – calculated on the basis of the balance of the assets as at the beginning of the period plus the anticipated yield on the fund's assets (as described in subsection (a), above), and deposits made during the period and less amounts paid during the period.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 3 - Significant Accounting Policies (cont'd)****J. Employee Benefits (cont'd)**2. Defined benefit plans (cont'd)

- (c) The difference, as at the balance sheet date, between the liability computed as described in subsection (b), above, and the actuarial liability less the fair value of the fund assets as at that date, reflects the balance of the actuarial income or expenses recorded directly in equity.

3. Other long-term employee benefits

The Group's net obligation for long-term employee benefits, which are not attributable to post-employment plans, is for the amount of the future benefit to which employees are entitled for services that were provided during the current and past periods. The amount of these benefits is discounted to its present value and the fair value of the assets related to this obligation is deducted therefrom. The discount rate is determined according to the yield on government bonds, where their currency and maturity date are similar to the conditions that obligate the Group, as at the reporting date. The calculations are performed by using the "predicted eligibility unit" method. Actuarial profits and losses are recorded to the statement of income in the period in which they arise.

Regarding use of a discount rate deriving from government bonds, to the best of the Company's knowledge the issue of the discount interest rate for the actuarial calculations is being examined and it is possible that it will ultimately be decided that in Israel the proper discount interest rate is that based on corporate bonds. In that case, the amounts included in these statements will change, the actuarial liability will be decreased and the expenses for current funding of the liability will increase.

4. Severance pay

Severance pay is charged as expense when the Group is clearly obligated to pay it, without any reasonable chance of cancellation, in respect of termination of employees before they reach the customary age of retirement according to a formal, detailed plan. The benefits given to employees upon voluntary retirement are charged when the Group proposes a plan to the employees encouraging voluntary retirement, it is expected that the proposal will be accepted and it is possible to reliably estimate the number of employees that will accept the proposal.

5. Short term benefits

Obligations for short-term employee benefits are measured on a non-discounted basis, and the expense is recorded at the time the said service is provided.

A provision for short-term employee benefits in respect of cash bonuses is recognized when the Group has a current legal or implied obligation to pay the said amount for services provided by the employee in the past and it is possible to reliably estimate the amount.



**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 3 - Significant Accounting Policies (cont'd)****J. Employee Benefits (cont'd)**6. Share-based payment transactions

The fair value at the time options are granted to employees is charged as a salary expense, with a corresponding increase in the balance of retained earnings as part of the shareholders' equity, over the period in which the employees' eligibility for the options vest. The amount recorded as an expense is adjusted in order to reflect the number of options that have vested.

**K. Provisions**

A provision is recognized when the Group has a present legal or implied obligation as the result of an event that occurred in the past, when it can be reliably estimated and when it is expected that a flow of economic benefits will be required in order to settle the obligation. The provision is made based on an estimate of the anticipated payments to settle the liability. In addition, in rare cases where it is not possible to estimate the outcome of the claim, no provision is recorded in the financial statements.

1. Warranty

A provision for warranty is recognized when the products or services, in respect of which the warranty is provided, are sold or performed. The provision is based on historical data and on a weighting of all possible expenses according to their probability of occurrence.

2. Reorganization

A provision for reorganization is recognized when the Group approves a formal detailed plan for reorganization, and such reorganization has effectively begun or where a notification in respect thereof has been given to the employees. The provision does not include future operating expenses.

3. Provision for environmental costs

The Group recognizes a provision for an existing obligation that has occurred in respect of a current cost for operation and maintenance of facilities for prevention of environmental pollution and anticipated provisions for costs relating to environmental restoration stemming from current or past activities.

Costs for preventing environmental pollution that increase the life expectancy or efficiency or decrease or prevent the environmental pollution, are recorded as a provision and are capitalized to the cost of the fixed assets and are depreciated according to the usual depreciation rates used by the Group.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 3 - Significant Accounting Policies (cont'd)****K. Provisions (cont'd)**4. Onerous contracts

A provision for onerous contracts is recognized where the benefits expected to be received from the contracts by the Group are low compared with the unavoidable costs stemming from compliance with the contractual liabilities. The provision is measured based on the lower of the present value of the expected cost of canceling the contract and the net present value of the expected cost of continuing to honor the contract.

**L. Recognition of Revenues**1. Sale of goods

Revenue for the sale of goods is measured according to the fair value of the consideration received or to be received, after deducting returns, discounts, commercial discounts and quantity discounts. In cases where the credit period is short and constitutes the accepted credit period allowed in the sector, the future payment is not discounted. The Group recognizes the revenue when the significant risks and rewards from ownership of the merchandise are transferred to the buyer, receipt of the consideration is expected, it is possible to reliably estimate the chance that the goods will be returned and the costs that were incurred or will be incurred for the transaction can be reliably estimated, when the management has no ongoing involvement in the goods and the revenue can be reliably estimated.

Transfer of the risks and rewards changes in accordance with the specific conditions of the sale contract.

2. Construction contracts

Revenues and expenses from construction contracts are recorded in the statement of income, in proportion to the percentage of completion of the contract, where it is possible to reliably estimate its results. Revenues from a construction contract include the original amount included in the contract plus amounts relating to changes in the work order, claims and incentives, provided income is expected and it can be reliably measured.

The estimate of the percentage of completion is based on a review of the work performed. Where it is not possible to reliably estimate the results of a construction contract, the revenues from the said contract is recognized only in an amount equal to the costs that can reasonably expected to be recovered. An anticipated loss from a construction contract is recorded immediately in the statement of income.

**M. Government Grants**

Government grants are initially recognized when there is reasonable certainty that they will be received and the Group will comply with the conditions entitling its receipt.

Government grants received for purposes of acquisition of an asset are presented as an offset from the related asset and are recorded in the statement of income on a systematic basis over the useful life of the asset.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 3 - Significant Accounting Policies (cont'd)****N. Payment of lease fees**

Payments under an operating lease are recorded in the statement of income using the straight-line method over the term of the lease period.

Minimum lease payments made as part of a financing lease are divided between the financing expense and reduction of the liability balance. The financing expense is allocated to each period of the lease term, such that it receives a fixed periodic interest rate on the remaining balance of the liability. The lease payments are updated over the remaining term of the lease for contingent lease fees on the date the approval is received for the change in the lease conditions.

The Company adjusts the minimum lease payments over the balance of the period of the lease agreement, on the date the contingency is resolved and the adjustments are known.

**O. Resource exploration costs and valuation**

Costs incurred in respect of the exploration for resources and the valuation thereof are recognized as tangible and intangible assets based on their nature. The costs are presented at cost less accumulated depreciation and a provision for impairment.

The cost includes, among other things, costs of performing studies, drilling costs and operations in connection with evaluating the technical feasibility of the commercial capability of production of the resources.

**P. Financing Income and Expenses**

Financing income includes income from interest on amounts invested (including financial assets available for sale), income from dividends, income from sale of financial assets classified as available for sale, gains from foreign currency and gains from derivative financial instruments recognized in the statement of income. Interest income is recognized as accrued, using the effective interest method. Dividend income is recognized on the date the Group is granted the right to receive the payment. If a dividend is received in respect of marketable shares, the Group recognizes dividend income on the ex-dividend date.

Financing expenses include interest on loans received, changes in the time value of provisions, dividends paid on preferred shares classified as a liability, losses from impairment of value of certain financial assets, losses from derivative financial instruments, changes due to the passage of time in liabilities in respect of defined benefit plans for employees and income deriving from revaluation of the assets of a defined benefit plan for employees. Borrowing costs, which are not capitalized, are recorded on the income statement using the effective interest method.

Gains and losses from exchange rate differences are reported on a net basis.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 3 - Significant Accounting Policies (cont'd)****Q. Taxes on Income**

Taxes on income include current and deferred taxes. Taxes on income are recorded in the income statement unless the tax originated in a transaction or event that is recognized directly in shareholders' equity. In these cases, taxes on income are charged to shareholders' equity.

The current tax is the amount of tax that is expected to be paid on the taxable income for the year, which is calculated according to the tax rates in effect according to the law that was finally legislated or effectively legislated as at the balance sheet date, and includes changes in tax payments attributed to prior years.

Recognition of deferred taxes is according to the balance sheet approach, relating to temporary differences between the book values of the assets and liabilities for purposes of financial reporting and their value for tax purposes. The Company does not recognize deferred taxes for the following temporary differences: initial recognition of goodwill, initial recognition of assets and liabilities for transactions that do not constitute a business combination and do not impact the accounting income and the income for tax purposes, as well as differences deriving from investments in subsidiary and associated companies, if it is not expected that they will reverse in the foreseeable future. The deferred taxes are measured according to the tax rates that are expected to apply to the temporary differences at the time they are realized, on the basis of the law that was finally legislated or effectively legislated as at the balance sheet date. The Company offsets deferred tax assets and liabilities if there is an enforceable legal right to offset current tax assets and liabilities and they are attributed to the same taxable income and are taxed by the same tax authority for the same assessed company or different companies that intend to settle current tax assets and liabilities on a net basis or if the tax assets and liabilities are settled concurrently.

The Group could become liable for additional taxes in a case of distribution of intercompany dividends between the Group companies. These additional taxes were not included in the financial statements in light of the policy of the Group companies not to cause distribution of a dividend that involves additional taxes to the recipient company in the foreseeable future.

A deferred tax asset is recognized in the books when it is expected that in the future there will be taxable income against which the temporary differences can be utilized. Deferred tax assets are examined at each balance sheet date and, if it is not expected that the related tax benefits will be realized, they are reduced.

Additional taxes on income deriving from distribution of dividends are recorded the date the liability for payment of the related dividend is recognized.

**R. Earnings per share**

The Group presents basic and diluted earnings per share data for its ordinary share capital. The basic earnings per share are calculated by dividing income or loss allocable to the Group's ordinary equity holders by the weighted-average number of ordinary shares outstanding during the period. The diluted earnings per share are determined by adjusting the income or loss allocable to ordinary equity holders and the weighted-average number of ordinary shares outstanding for the effect of all potentially dilutive ordinary shares including options for shares granted to employees.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 3 - Significant Accounting Policies (cont'd)****S. Segment Information**

A segment is a distinguishable component of the Group, which is engaged in provision of products or services that are likely to be interrelated (business segment) or provision of products or services in a defined economic environment (geographical segment), and which is exposed to risks and rewards that are different from those of the other segments. The Group's format for segment reporting is based on business segments and is determined on the basis of the Group's structure and its internal reporting.

The inter-segment pricing is determined on the basis of transaction prices in the ordinary course of business.

Segment results, assets and liabilities include items that are directly attributable to the segment and items that can reasonably be attributed to it. Items that were not allocated consist primarily of investments and the income attributed to them; loans and credit and related expenses; corporate assets (especially the Company's headquarters); administrative and general expenses; as well as tax assets and liabilities and expenses for taxes on income.

Capital expenses of the segment are the total costs that were incurred during the period for purchasing fixed and intangible assets other than goodwill.

**T. Transactions with a Controlling Interest**

Assets and liabilities with respect to which a transaction is executed with a controlling interest are measured at fair value on the transaction date. The difference between the fair value and the consideration in the transaction is recorded in the equity section.

**U. Concession Agreements (B.O.T.)**

As part of the concession agreements (B.O.T.) with government entities for construction and operation of water desalinization facilities in exchange for fixed and variable payments, the Group recognizes a financial asset in its financial statements commencing from the start of the construction of the facilities. The financial asset reflects the government's debt and bears interest determined based on the customer's riskless interest rate plus an interest rate reflecting the appropriate risk.

Operating and maintenance costs of the facility are recorded in the statement of income as incurred. The operating income was calculated based on the amount of the expenses recorded in the statement of income with the addition of a fixed margin.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)****Note 3 - Significant Accounting Policies (cont'd)****V. Indices and Exchange Rates**

Set forth below are the rates of change in the dollar exchange rates and the Consumer Price Index:

	<b>Consumer Price Index</b>	<b>Dollar–shekel exchange rate</b>	<b>Dollar–euro exchange rate</b>
	%	%	%
For the three months ended March 31, 2008	<b>0.1</b>	<b>(7.6)</b>	<b>(6.9)</b>
For the three months ended March 31, 2007	(0.2)	(1.7)	(1.1)
For the year ended December 31, 2007	3.4	(9.0)	(10.5)

**W. New Standards and Interpretations not yet Adopted**

- IFRS 8 “Operating Segments” (hereinafter – “the Standard”). The Standard provides that the segment report is to be made in accordance with the “management approach”, that is, in accordance with the internal reporting format used by the entity’s decision makers. The Standard will apply to annual periods beginning on and after January 1, 2009. No change is expected in the Company’s presentation format of segment information in the financial statements after adoption of the Standard.
- IAS 23, “Borrowing Costs”, amended (hereinafter – “the Standard”). The Standard eliminates the possibility of recording borrowing costs as expenses in the statement of income and requires the entity to capitalize to the cost of the asset borrowing costs that can be directly allocated to the acquisition, construction or development of a qualifying asset. The Standard will apply to annual periods beginning on and after January 1, 2009. In the Company’s estimation, adoption of the Standard will have no impact on its financial statements.
- IAS 1, “Presentation of Financial Statements”, amended (hereinafter – “the Standard”). The Standard requires collection of information in the financial statements on the basis of common characteristics and presentation of a comprehensive statement of income. The Standard permits presentation of revenues and expense items as well as other total income items in the framework of a single comprehensive statement of income, which includes interim totals or, alternatively, to present two separate statements (a statement of income and afterwards a comprehensive statement of income). The names of some of the financial statements have been changed with the goal of clarifying their purposes (for example, the balance sheet will be called the statement of financial position). The Standard will apply to annual periods beginning on and after January 1, 2009. Early adoption is possible.

## Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)

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### Note 3 - Significant Accounting Policies (cont'd)

#### W. New Standards and Interpretations not yet Adopted (cont'd)

4. IFRS 3 “Business Combinations” and IAS 27 “Consolidated and Separate Financial Statements” amended, (hereinafter, “the Standards”). The main changes in the new standards that are relevant to the Company are: a certain change in the definitions of a business and a business combination, a change in the way of measuring items transferred in a business combination, provision of two alternatives for measuring rights that do not provide control, a change in the treatment of transaction costs, treatment of an acquisition in stages, allocation of the overall revenue among all the shareholders, treatment as capital transactions for acquisitions or sales of rights where control is maintained, treatment according to the full fair values in transactions leading to loss of control or acquisition of control, so that the holdings remaining after the loss of control will be appraised in light of income and loss while the initial investment in gaining control is also valued according to fair value through the statement of income, and expansion of the disclosure requirements.

The new Standards will apply to annual periods beginning July 1, 2009 and thereafter. It is possible to apply them in advance (only both Standards together). IFRS 3 will apply to business combinations that are executed after its commencement date. IAS 27 will apply retroactively, except for the allocation of the overall revenue among the shareholders, treatment of changes in rights in a subsidiary after acquiring control, and treatment of the loss of control in a subsidiary – which will be applicable from its commencement date.

5. IFRS 2 “Share-Based Payments”, amended (hereinafter – “the Standard”). The Standard provides a number of changes in the definition of the vesting conditions of share-based payments and regarding the manner of measuring share-based payments. The Standard will be applied retroactively for annual periods after January 1, 2009. Early implementation is permitted along with disclosure thereof. In the Company’s estimation, adoption of the Standard will not have a significant impact on its financial statements.
6. IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements” amended (hereinafter – “the Standards”). The Standards provide a number of changes with respect to classification of certain financial instruments as equity or debt and they expand the disclosure requirements regarding such instruments. In addition, proper disclosure is required for realizable instruments classified as equity. The new Standards apply to annual periods beginning on or after January 1, 2009. Early implementation is permitted. In the Company’s estimation, adoption of the Standard will not have a significant impact on its financial statements.
7. IFRIC 13 “Customer Loyalty Programs” – the Interpretation provides that sales of goods and services with respect to which the Company grants award credits to its customers are to be accounted for as multiple element transactions, and the payment received from the customer is to be allocated between its various elements based on the fair value of the award credits. The proceeds attributed to the award are to be recognized as revenue when the award credits are redeemed and the Company’s obligation to provide the awards is fulfilled.

The Interpretation applies to annual reporting periods beginning on January 1, 2009. Early adoption is permitted. Company Management estimates that implementation of the Standard will no have an effect on the Group’s financial statements.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 4 - Business Segments****A. General**

The Group operates in the segments that are described below:

ICL Fertilizers - ICL Fertilizers mines and processes potash, mines and processes phosphate rock, and produces agricultural phosphoric acid, phosphate fertilizers, compound fertilizers, based mainly on potash and phosphate, and specialty fertilizers. ICL Fertilizers markets these products worldwide, mainly to Europe, Brazil, India, China and Israel. This segment is comprised of two sub-segments: potash and phosphate. ICL Fertilizers extracts potash from the Dead Sea and mines potash from subterranean mines in the UK and in Spain. ICL Fertilizers mines phosphate rock from open-air mines in the Negev, and also produces sulphuric and phosphoric acid in Israel and fertilizers in Israel, the Netherlands and Germany.

In addition, the activity of Mifalei Tovala Ltd., which engages in the transportation of cargo, mainly of ICL companies in Israel, is included in the ICL Fertilizers segment.

ICL Industrial Products - ICL Industrial Products produces bromine out of a solution that is created as a by-product of the potash production process in Sdom, as well as bromine-based compounds. ICL Industrial Products uses most of the bromine it produces for self-production of bromine compounds on production sites in Israel, the Netherlands and China. In addition, ICL Industrial Products extracts salt, magnesia and chlorine from Dead Sea brine, and produces chlorine based products in Israel and the United States. In addition ICL Industrial Products produces and markets flame retardants and other products made from phosphorus.

ICL Performance Products - ICL Performance Products processes some of the agricultural phosphoric acid produced by ICL Fertilizers, using it to produce downstream products with high added value. These products include phosphoric acid (food grade and technical grade), phosphate salts, food additives, and hygiene products for the food industry. ICL Performance Products also produces specialty products, based on aluminum compounds, and other raw materials. Production is mostly carried out on production sites in Europe, (particularly in Germany) and the United States, as well as in Israel, China, and other countries. The water treatment operation, which is included in the ICL Performance segment, was acquired in January 2008. See Note 7C.

In addition to the segments detailed above, ICL has other activities, including, water desalination (through a proportionately consolidated company) and producing and marketing pure magnesium and magnesium alloys.



## Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)

## Note 4 - Business Segments (cont'd)

## B. Information on business segments (cont'd)

	Fertilizers				Industrial Products Unaudited	Performance Products Unaudited	Other Operations Unaudited	Eliminations Unaudited	Consolidated Unaudited
	Potash	Phosphate	Eliminations	Total					
	Unaudited	Unaudited	Unaudited	Unaudited					
US\$ thousands									
<b>Three-month period ended March 31, 2008</b>									
Sales to external parties	523,129	354,451	-	877,580	288,164	305,960	56,429	-	1,528,133
Inter-segment sales	58,309	37,125	(20,128)	75,306	1,467	10,409	8,351	(95,533)	-
Total sales	581,438	391,576	(20,128)	952,886	289,631	316,369	64,780	(95,533)	1,528,133
Operating income (loss)	280,532	132,383	(5,523)	407,392	28,605	35,883	(1,114)	-	470,766
Unallocated (expense) income									(5,771)
Operating income									464,995
Capital expenditures	26,963	9,818	-	36,781	18,574	93,603	1,258	-	150,216
Unallocated capital expenditures									373
Total capital expenditures									150,589
Depreciation and amortization	15,135	7,082	-	22,217	10,138	9,598	1,978	-	43,931
Unallocated depreciation and amortization									135
Total depreciation and amortization									44,066
<b>Three-month period ended March 31, 2007</b>									
Sales to external parties	246,168	165,926	-	412,094	195,586	243,576	31,668	-	882,924
Inter-segment sales	29,680	18,440	(8,407)	39,713	1,255	5,508	4,551	(51,027)	-
Total sales	275,848	184,366	(8,407)	451,807	196,841	249,084	36,219	(51,027)	882,924
Operating income (loss)	62,216	9,021	122	71,359	44,530	19,848	(1,803)	-	133,934
Unallocated (expense) income									(370)
Operating income									133,564
Capital expenditures	31,004	44,116	-	75,120	8,735	10,306	168,198	-	262,359
Unallocated capital expenditures									75
Total capital expenditures									262,434
Depreciation and amortization	17,447	5,544	-	22,991	8,105	8,303	4,845	-	44,244
Unallocated depreciation and amortization									79
Total depreciation and amortization									44,323

## Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)

## Note 4 - Business Segments (cont'd)

## B. Information on business segments (cont'd)

	Fertilizers			Total Audited	Industrial Products Audited	Performance Products Audited	Other Operations Audited	Eliminations Audited	Consolidated Audited
	Potash Audited	Phosphate Audited	Eliminations Audited						
US\$ thousands									
<b>Year ended December 31, 2007</b>									
Sales to external parties	1,228,259	731,713	-	1,959,972	919,263	1,078,300	145,644	-	4,103,179
Inter-segment sales	158,183	81,541	(51,033)	188,691	6,368	23,763	21,619	(240,441)	-
Total sales	<u>1,386,442</u>	<u>813,254</u>	<u>(51,033)</u>	<u>2,148,663</u>	<u>925,631</u>	<u>1,102,063</u>	<u>167,263</u>	<u>(240,441)</u>	<u>4,103,179</u>
Operating income (loss)	<u>405,628</u>	<u>122,962</u>	<u>(1,177)</u>	<u>527,413</u>	<u>142,172</u>	<u>91,079</u>	<u>(16,913)</u>	<u>-</u>	<u>743,751</u>
Unallocated expense									(1,185)
Operating income									<u>742,566</u>
Capital expenditures	75,961	60,764	-	136,725	229,466	32,645	174,020	-	572,856
Unallocated capital expenditures									361
Total capital expenditures									<u>573,217</u>
Depreciation and amortization	55,014	32,638	-	87,652	32,387	35,738	10,015		165,792
Unallocated depreciation and amortization									345
Total depreciation and amortization									<u>166,137</u>

## Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)

## Note 5 - Equity, Reserves and Retained Earnings

## Details of additional movement in equity capital

	Equity attributed to Company's equity interests							Minority	Total	
	Share capital	Share premium	Reserve from translation differences of foreign operations	Reserve from assets available for sale	Capital reserves	Treasury shares	Retained earnings	Total	interest	equity
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
<b>For the three-month period ended March 31, 2008</b>										
<b>Balance at December 31, 2007</b>	<b>540,779</b>	<b>81,396</b>	<b>65,477</b>	<b>251</b>	<b>13,227</b>	<b>(2,197)</b>	<b>1,101,564</b>	<b>1,800,497</b>	<b>66,421</b>	<b>1,866,918</b>
Share-based payments (net of tax)	-	-	-	-	2,725	-	-	2,725	-	2,725
Dividend to shareholders	-	-	-	-	-	-	(113,070)	(113,070)	-	(113,070)
Tax benefit in respect of shares allotted to employees	-	-	-	-	116	-	-	116	-	116
Options of proportionately consolidated company that were issued to its employees	-	-	-	-	-	-	-	-	917	917
Total income for the period	-	-	<b>46,609</b>	<b>157</b>	-	-	<b>335,120</b>	<b>381,886</b>	<b>7,741</b>	<b>389,627</b>
<b>Balance at March 31, 2008</b>	<b>540,779</b>	<b>81,396</b>	<b>112,086</b>	<b>408</b>	<b>16,068</b>	<b>(2,197)</b>	<b>1,323,614</b>	<b>2,072,154</b>	<b>75,079</b>	<b>2,147,233</b>
<b>For the three-month period ended March 31, 2007</b>										
<b>Balance at December 31, 2006</b>	<b>540,779</b>	<b>81,396</b>	-	-	2,127	(2,197)	1,072,150	1,694,255	(7,562)	1,686,693
Share-based payments (net of tax)	-	-	-	-	841	-	-	841	-	841
Dividend to shareholders	-	-	-	-	-	-	(283,411)	(283,411)	-	(283,411)
Tax benefit in respect of shares allotted to employees	-	-	-	-	11	-	-	11	-	11
Issue of shares to minority in subsidiary	-	-	-	-	-	-	-	-	12,251	12,251
Total income for the period	-	-	7,065	29	-	-	90,863	97,957	(1,328)	96,629
<b>Balance at March 31, 2007</b>	<b>540,779</b>	<b>81,396</b>	<b>7,065</b>	<b>29</b>	<b>2,979</b>	<b>(2,197)</b>	<b>879,602</b>	<b>1,509,653</b>	<b>3,361</b>	<b>1,513,014</b>

## Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)

## Note 5 - Equity, Reserves and Retained Earnings (cont'd)

## Details of additional movement in equity capital (cont'd)

	Equity attributed to Company's equity interests							Minority	Total	
	Share capital	Share premium	Reserve from translation differences of foreign operations	Reserve from assets available for sale	Capital reserves	Treasury shares	Retained earnings	Total	interest	equity
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
<b>For the year ended December 31, 2007</b>										
<b>Balance at December 31, 2006</b>	540,779	81,396	-	-	2,127	(2,197)	1,072,150	1,694,255	(7,562)	1,686,693
Share-based payments (net of tax)	-	-	-	-	9,155	-	-	9,155	-	9,155
Dividend to shareholders	-	-	-	-	-	-	(545,135)	(545,135)	-	(545,135)
Tax benefit in respect of shares allotted to employees	-	-	-	-	1,945	-	-	1,945	-	1,945
Issue of shares allotted to minority in subsidiary	-	-	-	-	-	-	-	-	77,676	77,676
Acquisition of shares of subsidiary from the minority	-	-	-	-	-	-	-	-	(375)	(375)
Total income for the period	-	-	65,477	251	-	-	574,549	640,277	(3,318)	636,959
<b>Balance at December 31, 2007</b>	<b>540,779</b>	<b>81,396</b>	<b>65,477</b>	<b>251</b>	<b>13,227</b>	<b>(2,197)</b>	<b>1,101,564</b>	<b>1,800,497</b>	<b>66,421</b>	<b>1,866,918</b>

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 6 - Taxes on Income**

1. The effective tax rate for the quarter is 14.8% compared with an effective tax rate of 17.9% in 2007. The decrease in the effective tax rate is mainly due to the following reasons:
  - a. An increase in the portion of revenue attributed to approved and beneficiary enterprises.
  - b. The utilization of accumulated tax losses in foreign subsidiaries in respect of which deferred taxes were not recorded in the past.
2. On February 26, 2008, the Knesset enacted the Income Tax Law (Adjustments for Inflation) (Amendment No. 20) (Restriction of Effective Period) – 2008 (hereinafter – the Amendment). In accordance with the Amendment, the effective period of the Adjustments Law will cease at the end of the 2007 tax year and as from the 2008 tax year the provisions of the law shall no longer apply, other than the transitional provisions intended at preventing distortions in the tax calculations.

In accordance with the Amendment, as from the 2008 tax year income for tax purposes will no longer be adjusted to a real (net of inflation) measurement basis. Furthermore, the depreciation of inflation immune assets and carried forward tax losses will no longer be linked to the CPI, so that these amounts will be adjusted until the end of the 2007 tax year after which they will cease to be linked to the CPI.

**Note 7 - Additional Information****A. Dividends**

1. On March 27, 2008, the Company's Board of Directors decided to distribute a dividend in the amount of \$115,000 thousand (the net dividend, less the share of a subsidiary amounts to \$114,802 thousand).
2. Subsequent to balance sheet date, on May 26, 2008 the Company's Board of Directors decided to distribute a dividend in the amount of \$173,000 thousand (the net dividend, less the share of a subsidiary amounts to \$172,702 thousand).

**B. Change in the estimate**

International accounting standard, IAS 16, regarding "Fixed Assets", provides that the useful life of an asset shall be reviewed at least at the end of every financial year, and if the expectations are different from the prior estimates, the change is to be treated as a change in an accounting estimate, in accordance with international accounting standard, IAS 8, regarding "Accounting Policy, Changes in Accounting Estimates and Errors".

Based on opinions received (mostly internal opinions and one opinion from an external independent appraiser), the Group changed the estimate of the remaining useful life of the fixed assets reflecting an extension of the depreciation period as part of the financial statements prepared in accordance with IFRS, commencing from January 1, 2007.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 7 - Additional Information****B. Change in the estimate (cont'd)**

On the basis of the experience accumulated by the Group, the cost of assets which have been fully depreciated and are still used for manufacturing are significant. Furthermore, the Group has reexamined the useful life of the fixed assets as compared to the industry in which the Group operates, the level of maintenance of the facilities and the functioning of the facilities over the years. According to this examination the remaining period of depreciation of the fixed assets is lower than the balance of the anticipated useful life of the facilities. On the basis of this assessment, the Group decided to change the estimate of the economic useful life of the fixed assets. The change in estimate is based on the experience accumulated by the Group and not on changes that have occurred in the assets or in the business environment. The previous estimate of the useful life of the Group's fixed assets was performed in 2002. The assessment was also based on the accumulated experience of the group.

**C. Business combination**

On January 28, 2008 the Group acquired the main assets and operations of a business unit of the German group Henkel that engages in water treatment for a cash payment of €60 million (about \$ 90 million). The financial statements include the results of operations of the business unit as from the date of its acquisition.

As at the approval date of the financial statements, the Company has not yet completed allocation of the excess cost to the identified assets and liabilities. The purchase price was allocated, at this stage, mainly to intangible assets (principally a patent and customer relations) in the amount of \$ 55 million and to goodwill in the amount of \$ 28 million.

**Note 8 - Contingent Liabilities**

- A.** A claim and application to approve 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 \$306 million.

In the opinion of the Company, based on the opinion of its legal advisors, the chances of the request for certification of the claim as a class action not being accepted are higher than the chances of it being accepted.

No provision has been recorded in the Financial Statements.

- B.** See Note 18 of the annual financial statements as at December 31, 2007 regarding contingent claims against the Company and its subsidiaries.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 9 - Explanation with respect to the Effects of the Transition to IFRS****A. General**

As stated in Note 2A these are the Group's first IFRS condensed consolidated interim financial statements for part of the period covered by the first IFRS annual financial statements

The accounting policies set out in Note 3 have been applied in preparing the condensed consolidated interim financial statements for the three months ended March 31, 2008, the comparative data for the three months ended March 31, 2007, the comparative data for the year ended December 31, 2007 and the opening IFRS balance sheet as at January 1, 2007 (hereinafter – the transition date).

This note has been prepared on the basis of IFRS in issue that are effective or available for early adoption at the Group's first IFRS annual reporting date, December 31, 2008, and were the basis for the Company's accounting policy.

The IFRSs that will be effective or available for voluntary early adoption in the annual financial statements for the year ended December 31, 2008 are still subject to change and to the issue of additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period that are relevant to this interim financial information will be determined only when the first IFRS financial statements are prepared at December 31, 2008.

**B. Detail of the Relief Provisions Selected**

Set forth below is detail of the relief provisions the Company has selected under IFRS 1 and regarding which the Company is not making retroactive application as at the Transition Date of IFRS:

## 1. Business Combinations

The Company did not retroactively apply IFRS 3 (which deals with business combinations) and, therefore, goodwill and excess cost created in business combinations, in acquisitions of associated companies, companies under joint control and minority acquisitions after obtaining control, taking place prior to January 1, 2007 were not treated in accordance with IFRS 3 but, rather, pursuant to generally accepted accounting principles in Israel.

## 2. Translation Differences from Foreign Activities

The Company elected to apply the relief provision provided in IFRS 1 whereby as at the Transition Date the cumulative balances of the reserve for translation differences relating to all the foreign activities as at the Transition Date will be reclassified to the retained earnings' balance.

## 3. Compound financial instruments

In accordance with the relief provided in IFRS 1, the Company has chosen not to split compound financial instruments into a liability component and an equity component in accordance with IAS 32, "Financial Instruments: Presentation and Disclosure", since the liability no longer exists on the Transition Date.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 9 - Explanation with respect to the Effects of the Transition to IFRS (cont'd)****B. Detail of the Relief Provisions Selected**

## 4. Share-based payment transactions

In accordance with Israeli GAAP, as from January 1, 2006 the Company recognized share-based payment transactions with respect to grants awarded after March 15, 2005 that had not yet vested as at January 1, 2006. In accordance with the relief in IFRS 1, share-based payments awarded before November 7, 2002 or were fully vested until January 1, 2007 were not retroactively accounted for, in accordance with the relief provisions of IFRS 1.

**C. Accounting policy adopted when IFRS allows various alternatives**

## 1. Actuarial gains and losses

The Company has chosen one of the alternatives allowed under IAS 19 as its policy for accounting for actuarial gains and losses. In accordance with the alternative chosen, the actuarial gains and losses will be immediately recognized against shareholders' equity (retained earnings). In the opinion of the Company, this alternative is preferable since the net liability to the employees on the cutoff date is presented at fair value according to this alternative. Furthermore, under this alternative, the statement of operations more appropriately reflects the Company's results of operations for the reported period by preventing possible fluctuations from actuarial gains and losses.

## 2. Jointly controlled entities

In accordance with Israeli GAAP, entities in which the Company has joint control are presented according to the proportionate consolidation method. In accordance with IFRS, the investment in such entities may be presented according to the proportionate consolidation method or under the equity basis. The Company has chosen to implement the alternative of presenting investee companies under joint control according to the proportionate consolidation method, since there is legal joint control and therefore the proportionate consolidation of the companies more appropriately reflects the financial position and results of operations of the Company. Furthermore, the alternative chosen is consistent with the accounting treatment the Company applied before the transition to IFRS.

**D. Adjustments to IFRS**

The tables and notes hereunder provide an explanation of the effects of the transition from Israeli GAAP to IFRS on the Company's financial position, results of operations and cash flow.



**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**
**Note 9 - Explanation with respect to the Effects of the Transition to IFRS (cont'd)**
**D. Adjustments to IFRS (cont'd)**
**1. Balance as at January 1, 2007**

	January 1, 2007		
	Israeli GAAP*	Effect of the transition to IFRS	IFRS
	US\$ thousands	US\$ thousands	US\$ thousands
<b>Current assets</b>			
Cash and cash equivalents	50,085	-	50,085
Short-term investments, deposits and loans	120,820	(211)	120,609
Trade receivables	470,569	218,482	689,051
Other receivables and debit balances, including derivatives	172,237	(38,883)	133,354
Income taxes refundable	8,632	-	8,632
Inventories	785,433	-	785,433
<b>Total current assets</b>	<b>1,607,776</b>	<b>179,388</b>	<b>1,787,164</b>
<b>Investments and long-term receivables</b>			
Associated companies and other company	31,149	661	31,810
Long-term deposits and receivables	27,798	74,243	102,041
Inventories - non-current	33,865	-	33,865
Deferred taxes, net	6,539	50,285	56,824
Receivables from the minority interest	17,011	(17,011)	-
	116,362	108,178	224,540
<b>Property, plant and equipment</b>	<b>1,700,996</b>	<b>(62,870)</b>	<b>1,638,126</b>
<b>Intangible assets</b>	<b>195,450</b>	<b>63,089</b>	<b>258,539</b>
<b>Total non-current assets</b>	<b>2,012,808</b>	<b>108,397</b>	<b>2,121,205</b>
	<b>3,620,584</b>	<b>287,785</b>	<b>3,908,369</b>
<b>Current liabilities</b>			
Credit from banks and others	266,973	218,482	485,455
Trade payables	315,945	-	315,945
Provisions	25,652	-	25,652
Other payables, including derivatives	272,033	2,671	274,704
Income taxes payable	72,552	-	72,552
<b>Total current liabilities</b>	<b>953,155</b>	<b>221,153</b>	<b>1,174,308</b>
<b>Long-term liabilities</b>			
Loans from banks and others	358,391	1,032	359,423
Debentures	125,000	-	125,000
Provisions	33,900	-	33,900
Deferred income taxes, net	168,391	3,523	171,914
Employee benefits	241,252	115,879	357,131
Minority interests	9,476	(9,476)	-
<b>Total non-current liabilities</b>	<b>936,410</b>	<b>110,958</b>	<b>1,047,368</b>
<b>Total liabilities</b>	<b>1,889,565</b>	<b>332,111</b>	<b>2,221,676</b>
<b>Shareholders' equity</b>			
Share capital	540,779	-	540,779
Capital surplus	81,396	-	81,396
Capital reserves	20,855	(18,728)	2,127
Dividend declared after balance sheet date	283,411	(283,411)	-
Retained earnings	806,775	265,375	1,072,150
Treasury shares	(2,197)	-	(2,197)
	1,731,019	(36,764)	1,694,255
<b>Minority interests</b>	<b>-</b>	<b>(7,562)</b>	<b>(7,562)</b>
<b>Total shareholders' equity</b>	<b>1,731,019</b>	<b>(44,326)</b>	<b>1,686,693</b>
	<b>3,620,584</b>	<b>287,785</b>	<b>3,908,369</b>

\* Restated as a result of first-time adoption of new Israeli accounting standards.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**
**Note 9 - Explanation with respect to the Effects of the Transition to IFRS (cont'd)**
**D. Adjustments to IFRS (cont'd)**
**2. Balance as at December 31, 2007**

	December 31, 2007		
	Israeli GAAP	Effect of the transition to IFRS	IFRS
	US\$ thousands	US\$ thousands	US\$ thousands
<b>Current assets</b>			
Cash and cash equivalents	58,204	-	58,204
Short-term investments, deposits and loans	73,655	(310)	73,345
Trade receivables	962,113	-	962,113
Other receivables and debit balances, including derivatives	174,268	(49,897)	124,371
Income taxes refundable	8,825	-	8,825
Inventories	974,966	(4,396)	970,570
<b>Total current assets</b>	<b>2,252,031</b>	<b>(54,603)</b>	<b>2,197,428</b>
<b>Investments and long-term receivables</b>			
Associated companies and other company	37,363	986	38,349
Long-term deposits and receivables	36,192	68,717	104,909
Inventories - non-current	29,771	731	30,502
Deferred taxes, net	19,044	66,715	85,759
	122,370	137,149	259,519
<b>Property, plant and equipment, net</b>	<b>1,841,396</b>	<b>(37,344)</b>	<b>1,804,052</b>
<b>Intangible assets</b>	<b>417,496</b>	<b>66,860</b>	<b>484,356</b>
<b>Total non-current assets</b>	<b>2,381,262</b>	<b>166,665</b>	<b>2,547,927</b>
	<b>4,633,293</b>	<b>112,062</b>	<b>4,745,355</b>
<b>Current liabilities</b>			
Credit from banks and others	622,704	-	622,704
Trade payables	428,386	(120)	428,266
Provisions	29,185	-	29,185
Other payables, including derivatives	355,702	44,406	400,108
Income taxes payable	101,596	(39,596)	62,000
<b>Total current liabilities</b>	<b>1,537,573</b>	<b>4,690</b>	<b>1,542,263</b>
<b>Long-term liabilities</b>			
Loans from banks and others	626,542	-	626,542
Debentures	125,000	-	125,000
Provisions	37,753	(867)	36,886
Deferred taxes, net	160,132	11,413	171,545
Liability for employee severance and other			
Employee benefits	285,153	91,048	376,201
Minority interests	66,147	(66,147)	-
<b>Total non-current liabilities</b>	<b>1,300,727</b>	<b>35,447</b>	<b>1,336,174</b>
<b>Total liabilities</b>	<b>2,838,300</b>	<b>40,137</b>	<b>2,878,437</b>
<b>Shareholders' equity</b>			
Share capital	540,779	-	540,779
Capital surplus	81,396	-	81,396
Capital reserves	96,259	(17,304)	78,955
Dividend declared after balance sheet date	114,802	(114,802)	-
Retained earnings	963,954	137,610	1,101,564
Treasury shares	(2,197)	-	(2,197)
<b>Total attributable to holders of the Company's equity</b>	<b>1,794,993</b>	<b>5,504</b>	<b>1,800,497</b>
<b>Minority interests</b>	<b>-</b>	<b>66,421</b>	<b>66,421</b>
<b>Total shareholders' equity</b>	<b>1,794,993</b>	<b>71,925</b>	<b>1,866,918</b>
	<b>4,633,293</b>	<b>112,062</b>	<b>4,745,355</b>

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**
**Note 9 - Explanation with respect to the Effects of the Transition to IFRS (cont'd)**
**D. Adjustments to IFRS (cont'd)**
**3. Balance as at March 31, 2007**

	March 31, 2007		
	Israeli GAAP*	Effect of the transition to IFRS	IFRS
	US\$ thousands	US\$ thousands	US\$ thousands
<b>Current assets</b>			
Cash and cash equivalents	139,132	-	139,132
Short-term investments, deposits and loans	84,517	(213)	84,304
Trade receivables	556,567	211,075	767,642
Other receivables and debit balances, including derivatives	141,897	(44,193)	97,704
Income taxes refundable	10,181	-	10,181
Inventories	804,917	(4,084)	800,833
<b>Total current assets</b>	<b>1,737,211</b>	<b>162,585</b>	<b>1,899,796</b>
<b>Investments and long-term receivables</b>			
Associated companies and other company	32,394	675	33,069
Long-term deposits and receivables	27,380	71,513	98,893
Inventories - non-current	31,893	183	32,076
Deferred taxes, net	7,794	53,587	61,381
Minority interest	6,769	(6,769)	-
	<b>106,230</b>	<b>119,189</b>	<b>225,419</b>
<b>Property, plant and equipment</b>	<b>1,694,009</b>	<b>(46,704)</b>	<b>1,647,305</b>
<b>Intangible assets</b>	<b>203,103</b>	<b>52,749</b>	<b>255,852</b>
<b>Total non-current assets</b>	<b>2,003,342</b>	<b>125,234</b>	<b>2,128,576</b>
	<b>3,740,553</b>	<b>287,819</b>	<b>4,028,372</b>
<b>Current liabilities</b>			
Credit from banks and others	277,475	211,075	488,550
Trade payables	306,517	-	306,517
Provisions	22,904	-	22,904
Other payables, including derivatives	294,135	56,051	350,186
Income taxes payable	283,411	-	283,411
	60,710	(54,061)	6,649
<b>Total current liabilities</b>	<b>1,245,152</b>	<b>213,065</b>	<b>1,458,217</b>
<b>Long-term liabilities</b>			
Loans from banks and others	363,982	34	364,016
Debentures	125,000	-	125,000
Provisions	34,577	-	34,577
Deferred taxes, net	170,289	2,936	173,225
Employee benefits	241,315	119,008	360,323
Minority interests	10,157	(10,157)	-
<b>Total non-current liabilities</b>	<b>945,320</b>	<b>111,821</b>	<b>1,057,141</b>
<b>Total liabilities</b>	<b>2,190,472</b>	<b>324,886</b>	<b>2,515,358</b>
<b>Shareholders' equity</b>			
Share capital	540,779	-	540,779
Capital surplus	81,396	-	81,396
Capital reserves	27,945	(17,872)	10,073
Dividend declared after balance sheet date	66,653	(66,653)	-
Retained earnings	835,505	44,097	879,602
Treasury shares	(2,197)	-	(2,197)
<b>Total attributable to holders of the Company's equity</b>	<b>1,550,081</b>	<b>(40,428)</b>	<b>1,509,653</b>
<b>Minority interests</b>	<b>-</b>	<b>3,361</b>	<b>3,361</b>
<b>Total shareholders' equity</b>	<b>1,550,081</b>	<b>(37,067)</b>	<b>1,513,014</b>
	<b>3,740,553</b>	<b>287,819</b>	<b>4,028,372</b>

\* Restated as a result of first time adoption of new Israeli accounting standards.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

**Note 9 - Explanation with respect to the Effects of the Transition to IFRS (cont'd)**

**D. Adjustments to IFRS (cont'd)**

**4. Statement of income 2007**

	December 31, 2007		
	Israeli GAAP	Effect of the transition to IFRS	IFRS
	US\$ thousands	US\$ thousands	US\$ thousands
Sales	4,100,284	2,895	4,103,179
Cost of sales	2,585,249	(29,058)	2,556,191
<b>Gross profit</b>	<b>1,515,035</b>	<b>31,953</b>	<b>1,546,988</b>
Selling, transportation and marketing expenses	600,336	(454)	599,882
General and administrative expenses	160,850	1,002	161,852
Research and development expenses, net	39,189	(37)	39,152
Other expenses	-	6,747	6,747
Other income	-	(3,211)	(3,211)
<b>Operating income</b>	<b>714,660</b>	<b>27,906</b>	<b>742,566</b>
Financing expenses	132,154	(15,295)	116,859
Financing income	(78,077)	37,839	(40,238)
<b>Financing expenses, net</b>	<b>54,077</b>	<b>22,544</b>	<b>76,621</b>
Other expenses	19,381	(19,381)	-
Share in profits of associated companies, net	-	3,969	3,969
<b>Income before taxes on income</b>	<b>641,202</b>	<b>28,712</b>	<b>669,914</b>
Taxes on income	113,059	6,671	119,730
<b>Income after taxes on income</b>	<b>528,143</b>	<b>22,041</b>	<b>550,184</b>
Shares in profits of associated companies, net	3,940	(3,940)	-
Minority interest in losses of subsidiaries, net	3,557	(3,557)	-
<b>Net income</b>	<b>535,640</b>	<b>14,544</b>	<b>550,184</b>
Attributed to:			
Holders of the Company's share capital			553,440
Minority interest			(3,256)
<b>Net income</b>			<b>550,184</b>
<b>Earning per share</b>			
Basic earning per share	0.417	0.014	0.431
Fully diluted earnings per share	0.416	0.014	0.430

Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**Note 9 - Explanation with respect to the Effects of the Transition to IFRS (cont'd)****D. Adjustments to IFRS (cont'd)****5. Statement of income for the three-month period ended March 31, 2007**

	<b>March 31, 2007</b>		
	<b>Israeli GAAP</b>	<b>Effect of the transition to IFRS</b>	<b>IFRS</b>
	<b>US\$ thousands</b>	<b>US\$ thousands</b>	<b>US\$ thousands</b>
Sales	882,960	(36)	882,924
Cost of sales	578,143	4,049	582,192
<b>Gross profit</b>	<b>304,817</b>	<b>(4,085)</b>	<b>300,732</b>
Selling, transportation and marketing expenses	122,980	406	123,386
General and administrative expenses	34,248	(382)	33,866
Research and development expenses, net	9,551	(162)	9,389
Other expenses	-	805	805
Other income	-	(278)	(278)
<b>Operating income</b>	<b>138,038</b>	<b>(4,474)</b>	<b>133,564</b>
Financing expenses	22,401	2,915	25,316
Financing income	(11,944)	2,817	(9,127)
<b>Financing expenses, net</b>	<b>10,457</b>	<b>5,732</b>	<b>16,189</b>
Other expenses	4,368	(4,368)	-
Share in profits of associated companies, net	-	1,022	1,022
<b>Income before taxes on income</b>	<b>123,213</b>	<b>(4,816)</b>	<b>118,397</b>
Taxes on income	30,251	(1,304)	28,947
<b>Income after taxes on income</b>	<b>92,962</b>	<b>(3,512)</b>	<b>89,450</b>
Shares in profits of associated companies, net	1,008	(1,008)	-
Minority interest in losses of subsidiaries, net	1,413	(1,413)	-
<b>Net income</b>	<b>95,383</b>	<b>(5,933)</b>	<b>89,450</b>
Attributed to:			
Holders of the Company's share capital			90,863
Minority interest			(1,413)
<b>Net income</b>			<b>89,450</b>
<b>Earning per share</b>			
Basic earning per share	0.074	(0.003)	0.071
Fully diluted earnings per share	0.074	(0.003)	0.071

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

**Note 9 - Explanation with respect to the Effects of the Transition to IFRS (cont'd)**

**D. Adjustments to IFRS (cont'd)**

**6. Adjustment of Equity Capital as at January 1, 2007**

	January 1, 2007								
	Share capital	Premium on shares	Capital reserves	Reserve from translation differences of foreign operation	Retained earnings	Minority interest	Dividend declared after balance sheet date	Cost of company shares held by a subsidiary	Total
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Balance as at January 1, 2007 according to Israeli GAAP *	540,779	81,396	2,127	18,728	806,775	-	283,411	(2,197)	1,731,019
<b>Adjustments:</b>									
Employees benefits	-	-	-	-	(37,491)	-	-	-	(37,491)
Financial instruments	-	-	-	-	1,000	-	-	-	1,000
Minority interests	-	-	-	-	-	(7,562)	-	-	(7,562)
Other	-	-	-	-	(273)	-	-	-	(273)
Translation differences of foreign operation	-	-	-	(18,728)	18,728	-	-	-	-
Dividend declared after balance sheet date	-	-	-	-	283,411	-	(283,411)	-	-
	-	-	-	(18,728)	265,375	(7,562)	(283,411)	-	(44,326)
IFRS balance	540,779	81,396	2,127	-	1,072,150	(7,562)	-	(2,197)	1,686,693

\* Restated as a result of first time adoption of new Israeli accounting standards.

## Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)

## Note 9 - Explanation with respect to the Effects of the Transition to IFRS (cont'd)

## D. Adjustments to IFRS (cont'd)

## 7. Adjustment of Equity Capital as at December 31, 2007

	December 31, 2007								
	Share capital	Premium on shares	Capital reserves	Reserve from translation differences of foreign operation	Retained earnings	Minority interest	Dividend declared after balance sheet date	Cost of company shares held by a subsidiary	Total
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Balance as at December 31, 2007 according to Israeli GAAP	540,779	81,396	13,227	83,032	963,954	-	114,802	(2,197)	1,794,993
<b>Adjustments:</b>									
Employees benefits	-	-	-	-	(21,407)	-	-	-	(21,407)
Change in useful life estimate	-	-	-	-	22,658	-	-	-	22,658
Financial instruments	-	-	251	-	4,523	-	-	-	4,774
Minority interests	-	-	-	-	-	66,421	-	-	66,421
Other	-	-	-	1,173	(1,694)	-	-	-	(521)
Translation differences of foreign operation	-	-	-	(18,728)	18,728	-	-	-	-
Dividend declared after balance sheet date	-	-	-	-	114,802	-	(114,802)	-	-
	-	-	251	(17,555)	137,610	66,421	(114,802)	-	71,925
IFRS balance	540,779	81,396	13,478	65,477	1,101,564	66,421	-	(2,197)	1,866,918

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

**Note 9 - Explanation with respect to the Effects of the Transition to IFRS (cont'd)**

**D. Adjustments to IFRS (cont'd)**

**8. Adjustment of Equity Capital as at March 31, 2007**

	March 31, 2007								
	Share capital	Premium on shares	Reserve from translation differences of foreign operation	Differences from translation of financial statements of subsidiaries	Retained earnings	Minority interest	Dividend declared after balance sheet date	Cost of company shares held by a subsidiary	Total
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Balance as at March 31, 2007 according to Israeli GAAP	540,779	81,396	2,979	24,966	835,505	-	66,653	(2,197)	1,550,081
<b>Adjustments:</b>									
Employees benefits	-	-	-	-	(41,752)	-	-	-	(41,752)
Financial instruments	-	-	29	-	1,888	-	-	-	1,917
Minority interests	-	-	-	-	-	3,361	-	-	3,361
Other	-	-	-	827	(1,420)	-	-	-	(593)
Translation differences of foreign operation	-	-	-	(18,728)	18,728	-	-	-	-
Dividend declared after balance sheet date	-	-	-	-	66,653	-	(66,653)	-	-
	-	-	29	(17,901)	44,097	3,361	(66,653)	-	(37,067)
IFRS balance	540,779	81,396	3,008	7,065	879,602	3,361	-	(2,197)	1,513,014



## Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)

## Note 9 - Explanation with respect to the Effects of the Transition to IFRS (cont'd)

## D. Adjustments to IFRS (cont'd)

## 9. Adjustments on the net income

	For the three months ended March 31, 2008 <u>(Unaudited)</u> <u>US\$ thousands</u>	For the year ended December 31, 2007 <u>(Audited)</u> <u>US\$ thousands</u>
Net income according to Israeli GAAP	95,383	535,640
Employee benefits	(4,641)	(3,278)
Change in the estimated useful life of fixed assets	1,311	22,658
Financial instruments	(1,702)	1,199
Inclusion of the minority interest in the losses of shareholders' equity	(1,413)	(3,557)
Other	<u>512</u>	<u>(2,478)</u>
Total adjustments	<u>(5,933)</u>	<u>14,544</u>
Net income according to IFRS	<u><u>89,450</u></u>	<u><u>550,184</u></u>

## 10. Cash flow statement

There are no significant differences regarding the statement of cash flows presented according to Israeli GAAP and the statement of cash flows presented according to IFRS, except the effect of the accounting treatment on securitization transaction that according to Israeli GAAP, the securitization transaction treated as a sale of financial assets during operating activities. Pursuant to IFRS, the transaction is accounted for as a financing transaction. Therefore, the cash flows in respect of the securitization transaction are classified as part of the financing activities whereas the cash flows from collection of the customer receivables are classified as current operating activities.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 9 - Explanation with respect to the Effects of the Transition to IFRS (cont'd)****E. Summary of differences between Israeli GAAP and IFRS****1. Employee Benefits**

IAS 19 provides the accounting treatment (recognition, measurement and disclosure) of employee benefits. Provided hereunder are the adjustments required for the transition from the accepted practice according to Israeli GAAP to implementation of the international standard.

In accordance with Israeli GAAP, the liability for employee severance benefits is measured on the basis of the number of years of service multiplied by the employee's latest monthly salary (one month's salary for each year worked), and the severance pay deposits against such liability are measured on the basis of their redemption value as at the balance sheet date. In addition, the liabilities for vacation and sick leave are calculated on the basis of estimates of utilization and redemption, respectively.

On the date of transition to IFRS, all the net liabilities in respect of post-retirement benefits of employees and other long-term benefit plans are measured in accordance with the provisions of IAS 19, "Employee Benefits". Pursuant to IAS 19, some of the Group's severance pay plans are defined benefit plans as defined in IAS 19. Measurement of the liability for employee severance benefits under the above-mentioned plans is made based on an actuarial estimate and takes into account, among other things, the future increase in employee salaries along with the rate of employee turnover. The measurement is made on the basis of discounting the anticipated future cash flows, using the interest rate of highly-rated government bonds. In addition, the severance pay deposits are measured according to their fair value on the basis of their present value after taking into account the expected future yield on the plan's assets.

To the best of the Company's knowledge, the subject of discount interest rate is under study and it is likely that it will be decided that in Israel the suitable discount interest rate is that based on corporate bonds. In that event, the figures appearing in the Note above will change, the actuarial obligation will decrease and the financing expenses for the current year relating to these obligations will increase.

Furthermore, a foreign subsidiary has a liability to pay pension benefits to employees, which was calculated on the basis of an actuarial estimate, where part of the actuarial gains and losses were not recognized in the financial statements in accordance with the "corridor" method.

The Company has chosen as its accounting policy one of the alternatives provided under IAS 19 for treating actuarial gains and losses. According to the alternative chosen, the actuarial gains and losses will be recognized immediately against an entry to the shareholders' equity (retained earnings).

The provisions for the accumulated entitlement of employees to compensation in respect of sick leave and vacation were calculated on a "first in – first out" basis, since sick leave and vacation days are utilized first from the entitlement transferred from prior years and only after then from the current year entitlement.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 9 - Explanation with respect to the Effects of the Transition to IFRS (cont'd)****1. Employee Benefits (cont'd)**

In the executive insurance policies that were issued before 2004, the insurance companies and the Company agreed to each year transfer to the retirement benefits component the real yield accumulated on the assets deposited in the severance pay component. Therefore, in respect of these executive insurance policies, the assets included in the severance pay component that are transferred to the Company for the purpose of paying the employees upon their retirement will be lower. In the financial statements according to IFRS, the Company has chosen the accounting policy by which the plan assets will be measured according to the nominal amount, while in each reporting period an expense will be recorded in respect of transferring the real yield of the severance pay component to the retirement benefits component.

Revenues and expenses included in accordance with Israeli GAAP in the “salaries and related expenses” category, are recorded under IFRS, partly as part of “salaries and related expenses” and partly in the “financing expenses” category. Included as part of the “financing expenses” category are, among other things, financing income and revaluation/erosion of the plan’s assets.

**2. Change in the Estimated Useful Life of Fixed Assets**

International accounting standard, IAS 16, regarding “Fixed Assets”, provides that the useful life of an asset shall be reviewed at least at the end of every financial year, and if the expectations are different from the prior estimates, the change is to be treated as a change in an accounting estimate, in accordance with international accounting standard, IAS 8, regarding “Accounting Policy, Changes in Accounting Estimates and Errors”.

In October 2007, the Securities Authority published Decision 3-17 regarding “Change in the Useful Life of Fixed Assets (hereinafter – “the Authority’s Decision”). The Authority’s Decision applies to financial statements prepared in accordance with IFRS. In accordance with the Authority’s Decision, a change may be made in the estimated useful life of an asset based on the Company’s past experience with respect to such asset, in a case where solid and reliable evidence has been accumulated by the company that supports changing the estimate.

Based on opinions received (mostly internal opinions and one opinion from an external independent appraiser), the Group changed the estimate of the remaining useful life of the fixed assets reflecting an extension of the depreciation period as part of the financial statements prepared in accordance with IFRS, commencing from January 1, 2007.

On the basis of the experience accumulated by the Group, the cost of assets which have been fully depreciated and are still used for manufacturing are significant. Furthermore, the Group has reexamined the useful life of the fixed assets as compared to the industry in which the Group operates, the level of maintenance of the facilities and the functioning of the facilities over the years. According to this examination the remaining period of depreciation of the fixed assets is lower than the balance of the anticipated useful life of the facilities. On the basis of this assessment, the Group decided to change the estimate of the economic useful life of the fixed assets. The change in estimate is based on the experience accumulated by the Group and not on changes that have occurred in the assets or in the business environment. The previous estimate of the useful life of the Group’s fixed assets was performed in 2002. The assessment was also based on the accumulated experience of the entity.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 9 - Explanation with respect to the Effects of the Transition to IFRS (cont'd)****3. Securitization Transactions**

The Company and certain Group subsidiaries entered into a securitization agreement according to which the companies sell part of their customer receivables to a foreign company that was incorporated for this purpose and that is not owned or controlled by the Group (hereinafter – “the Acquiring Company”). The Acquiring Company finances purchase of the receivables by means of a loan received from a financial entity unrelated to the Company that finances the loan from proceeds it receives from commercial paper it issues on the U.S. commercial paper market.

In accordance with Israeli GAAP, the securitization transaction executed by the Group meets the definition of a sale, and therefore the customer receivables included in the securitization transaction were eliminated in the consolidated financial statements.

The securitization transaction executed by the Group does not comply with the conditions for elimination of financial assets provided in IAS 39 regarding “Financial Instruments – Recognition and Measurement” since the Group did not transfer all the risks and rewards deriving from the customer receivables. Therefore, upon the transition to IFRS, the customer receivables included in the securitization transaction were restored in the consolidated balance sheet. On the other hand the amounts received from the Purchasing Company in the framework of the securitization transaction are recorded as financial liabilities in the “short-term credit” category, and are not offset against the balance of customer receivables.

Accordingly, in the transition to the international standards, there was an increase in balance of the customer receivables against an increase in the “short-term credit” category.

**4. Financial Instruments**

The Group uses financial instruments, including derivative financial instruments, in order to reduce exposure to currency and interest risks.

According to the accepted practice in Israel, the conditions for applying hedge accounting are based mainly on economic criteria.

In addition, under certain circumstances, derivative financial instruments used for hedging purposes are not recognized in the balance sheet and are not measured according to fair value.

International Standard IAS 39 provides that in order for a transaction in financial instruments to be considered a hedging transaction a number of conditions must be fulfilled, including conditions regarding designation of the instrument, compliance with strict documentation requirements and an anticipation of high hedge effectiveness at the beginning and during the entire hedge. Changes in the fair value of a financial instrument designated as a hedge of an asset or liability will be recognized as income or expense concurrently with recognizing the changes in the fair value of the hedged asset or liability that relate to the hedged risk.

The transactions the Group executes in financial instruments for purposes of reducing exposure, as noted above, do not meet the hedge conditions provided in the international standards and, therefore, upon the transition to IFRS the said financial instruments are measured according to fair value and the changes in their fair value are immediately recognized as income or expense.

Furthermore, below-market interest rate loans that were granted to employees of the Company and the subsidiaries were adjusted at fair value upon the transition to IFRS.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 9 - Explanation with respect to the Effects of the Transition to IFRS (cont'd)****5. Minority Interest**

Pursuant to Israeli GAAP, the minority interest is presented in the balance sheet outside of the shareholders' equity section, whereas under IFRS the minority interest is presented in the balance sheet as part of the shareholders' equity section.

In addition, in accordance with Israeli GAAP, the minority interest in the results of subsidiaries is included as part of the results of operations in the statement of income, whereas under IFRS the minority interest, as stated, is not part of the statement of income but, rather, it is presented as part of distribution of the income between the holders of the Company's equity and the minority shareholders.

**6. Rights in Land Leased from the Israel Lands Administration and Mining Rights**

Based on the lease agreements with the Israel Lands Administration, lease rights in lands have been granted to subsidiaries for a period of 49 years (with an option to extend) that are scheduled to end in different periods. The said lease agreements do not provide the company rights to acquire the full rights in the real estate and, in some cases, the subsidiaries were not granted rights to extend the lease period.

In accordance with Israeli GAAP, amounts paid in respect of lease rights in lands were presented with the Group's fixed assets and the amounts paid were amortized over the lease period.

Pursuant to international standard IAS 17, regarding "Leases", a lease of land that does not include an option to acquire the full rights in the real estate at the end of the lease period is to be classified as an operating lease and, accordingly, amounts paid in respect of leases from the Israel Lands Administration constitute prepaid lease fees. In accordance with IFRS reporting, the lease fees, as stated, are to be presented in the "prepaid expenses in respect of operating leases" category and not in the "fixed assets" category.

In addition, the financial statements of a subsidiary included as part of the "property, plant and equipment" category costs in respect of mining rights in Spain. A portion of these rights is valid up to 2037 whereas the balance is in effect up to 2067. As part of adjustment of the financial statements based on IFRS, the mining rights were classified from "property, plant and equipment" to the "other assets" category.

**7. Deferred Taxes**

Pursuant to Israeli GAAP, deferred tax assets were classified as current assets or non-current assets according to the classification of the assets for which they were created. In accordance with IFRS, deferred tax assets are classified as non-current assets even if it is anticipated that they will be realized in the short term. Therefore, upon the transition to IFRS, short-term deferred taxes as at the Transition Date and as at December 31, 2007 were reclassified from the "other receivables" category in the "current assets" section to the "deferred tax assets" category in the "non-current assets" section, and short-term deferred taxes as at transition date and December 31, 2007 were reclassified from the item of other payables under current liabilities to the item of deferred tax liabilities under non-current liabilities.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 9 - Explanation with respect to the Effects of the Transition to IFRS (cont'd)****8. Reserve from Translation Differences of Foreign Activities**

The Company elected to implement the relief provision offered by IFRS 1 whereby the entire balance of the "reserve for translation differences of foreign activities" as at the Transition Date, may be reclassified to retained earnings.

**9. Classification of Other Income/Expenses**

According to the accepted practice in Israel, gains and losses from sales of fixed assets, gains and losses from actuarial changes and expenses in respect of early retirement of employees were not presented in the consolidated financial statements as part of the operating income, but are presented under "other income/expenses". Under IFRS, these items are to be included in the operating profit or gross profit, as relevant.

**10. Concession Agreements**

A proportionately consolidated company has concession agreements with government entities under which the company constructed desalination facilities. Furthermore, in accordance with the agreements the company operates the desalination facilities and sells the desalinated water to the State in exchange for fixed and variable payments, as provided in the concession agreements. In accordance with Israeli GAAP (as from January 1, 2006) and in accordance with IFRS, as part of concession-based agreements, a financial asset reflecting the customer's debt will be recognized in the financial statements where the said financial asset bears interest. In accordance with Israeli GAAP, the interest on the financial asset is fixed based on use of the weighted average cost of capital (WACC) of the project. In addition, recognition of the financial asset starts from the date the facility was placed in service. Under IFRS (IFRIC 12), the interest rate on the financial asset will be set based on the borrower's risk free rate of interest plus an appropriate risk premium. Also, recognition of the financial asset will start from the commencement date of construction of the facility.

**11. Dividend Declared Subsequent to the Balance Sheet Date**

In accordance with Israeli GAAP, a dividend declared subsequent to the balance sheet date and up to the approval date the financial statements was presented in the "shareholders' equity" section as a reduction in the "retained earnings" and an increase in the category "dividend declared subsequent to the balance sheet date".

Upon the transition to reporting under IFRS, the Company will provide disclosure only of a dividend declared subsequent to the balance sheet date.

**12. Measurement of financial instruments available for sale**

Unlike Israeli GAAP, in accordance with IFRS financial instruments classified as available for sale are recognized as assets at fair value with the changes in fair value during the period being included directly in shareholders' equity.

**Notes to the Condensed Consolidated Financial Statements as at March 31, 2008 (Unaudited)**

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**Note 9 - Explanation with respect to the Effects of the Transition to IFRS (cont'd)****13. Business combinations**

In accordance with Israeli GAAP, a liability in respect of employee benefits was recognized following a structural change in a company consolidated for the first time, against goodwill, as at the date of acquisition.

In accordance with IFRS, the Company is required to recognize a liability for a structural change as a current expense and not as part of the cost allocation of a business combination, when the financial statements of the acquired company did not include on the acquisition date a liability in accordance with IAS 37 regarding provisions, contingent liabilities and contingent assets.

**14. Embedded derivatives**

In accordance with Israeli GAAP Embedded derivatives do not have to be separated from hybrid contracts. In accordance with IFRS, embedded derivatives are to be separated from hybrid instruments under certain circumstances and be presented at fair value on every balance sheet date, with the changes in fair value being recognized as income or expense on a current basis.

**15. Financing expenses and income**

In accordance with Israeli GAAP, financing expenses and income were presented on a net basis in the statement of income. In accordance with IFRS, financing expenses and financing income are presented separately in the statement of income.

