ICL-ISRAEL CHEMICALS LTD. כימיקלים לישראל בע"מ

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

Directors' Report on the State of the Company's Affairs for the period ended June 30, 2010

Below is the Directors' Report of Israel Chemicals Ltd. ("ICL" or "the Company") for the period ended June 30, 2010.

1. Description of the Company and its Business Environment

1.1 Description of ICL

ICL is a multinational company that operates mainly in the areas of fertilizers and specialty chemicals, in three segments: Fertilizers, Industrial Products and Performance Products.

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

ICL has a prominent position in the world in the markets for potash, bromine, pure phosphoric acid, specialty phosphates, bromine- and phosphorus-based flame retardants and chemicals used in wildfire retardants. Potash and phosphate are core components of fertilizers. Bromine is used in a wide range of applications, primarily as a basic ingredient of flame retardants. ICL's products are used primarily in agriculture, electronics, food products, oil and gas drilling, water purification and desalination, and in industries such as detergents, paper, cosmetics, pharmaceuticals, automotive, aluminium and others. ICL has decades of accumulated experience in most of its businesses.

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

ICL's main production facilities are based in Israel, Germany, the USA, Holland, Spain, the UK, China, Brazil and France. ICL has other production facilities in Austria, Belgium, Turkey, Argentina, Canada, Ireland and Australia.

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

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

Approximately 6% of ICL's production is sold in Israel. For specific products, ICL and some ICL companies have been declared a monopoly in Israel.

Approximately 44% of ICL's annual sales turnover comes from production outside of Israel.

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

ICL applies an overall policy of sustainable development that integrates social, economic and environmental considerations in all of its business activities. The main points of the policy include social responsibility, which covers contributing to the community, taking responsibility for the safety, hygiene and the well-being of employees, reducing environmental effects, crating a dialog and transparent communication with the authorities, as well as other subjects.

As noted, ICL operates in three segments of operation on a management-functional basis, even where administrative division and legal ownership do not fully correspond, as described below.

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

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

B. **ICL Industrial Products** – ICL Industrial Products manufactures elementary bromine from an end-brine that is created as a by-product of the potash production process in Sdom, as well as bromine-based compounds. ICL Industrial Products is the world's leading manufacturer of elementary bromine, producing about 35% of total global production in the reporting period. ICL Industrial Products uses about 77% of the elementary bromine it produces for manufacturing bromine compounds at its production sites in Israel, Holland and China. In addition, ICL Industrial Products produces and markets flame retardants and other phosphorus-based products in plants in the USA and Germany, produces various salt, magnesia and chlorine products at its production sites in Israel, and also manufactures chlorine-based products in Israel and the USA, and markets its products worldwide.

C. **ICL Performance Products** – ICL Performance Products purifies some of the fertilizer-grade phosphoric acid manufactured by ICL Fertilizers, purchases purified phosphoric acid from other sources and also manufactures thermal phosphoric acid. The purified phosphoric acid is used in the manufacture of downstream products of high added value – phosphate salts (which in turn are a raw material in the production of food additives), hygiene products, phosphorus derivatives and wildfire retardants and extinguishers. ICL Performance Products also produces specialty products based on aluminum oxide (“alumina”) and other raw materials. The production sites of ICL Performance Products are in Europe (mainly Germany), the USA, Brazil, Israel and China. During the period approximately two thirds of the sales of ICL Performance Products were of pure phosphoric acid of various qualities, and of downstream products of the acid.

In addition to these segments, other ICL activities include desalination and the production of magnesium metal.

1.2 Business environment and profitability

ICL is a multinational company. The Company's financial results are affected by global economic trends, changes in terms of trade and financing, and fluctuations in exchange rates. The demand for ICL products is affected by the demand for basic agricultural products and the global economic situation, among other factors.

Together with and as part of its business strategy, ICL is taking steps towards adapting its marketing and production policies to global market conditions. ICL is focusing on improving cash flow and diversifying financing sources, and is committed to taking action to improve efficiency and savings.

Most of ICL’s sales are in foreign currency, mainly US dollars and euro. A significant part of its operating expenses in Israel is denominated in shekels; therefore depreciation of the shekel against the dollar has a positive impact on ICL's profitability, while appreciation has the opposite effect. The depreciation of the average exchange rate of the euro against the dollar has a negative impact on ICL’s profitability, while appreciation has the opposite impact. Conversely, depreciation of the euro against the dollar improves the competitive ability of ICL's subsidiaries whose functional currency is the euro, compared with competitors whose functional currency is the dollar. The weakening of the dollar against the shekel in the period compared with the corresponding period last year, impacted negatively on ICL's operating income and financing expenses, by an estimated $14 million and $8 million, respectively. The forecast for ICL's surplus of revenues over expenses in euro for the next 12 months amounts to approximately $150 million.[1] ICL hedges against some of these foreign currency exposures.

Most of ICL's loans bear variable interest rates, exposing the Company to fluctuations in these rates. The Company partially hedges against this exposure by using financial hedging instruments, including derivatives. For details of hedging amounts for reducing such exposures, see section 8 below.

There is interdependence between the amount of available arable land and the amount of food for the population, and the use of fertilizers. The increase in global consumption of grains (such as cereals, rice, soybean and corn) is affected by natural population growth and the change in food consumption habits (a shift to richer nutrition, largely based on animal protein, which increases grain consumption) resulting from the rising standard of living, mainly in developing countries. Global consumption of grains is also affected by environmental-quality considerations and the efforts of western countries to reduce dependence on oil imports, which strengthens the trend to shift to bio-fuels. These trends have already led to significantly lower grain stocks a few years ago, and consequently, higher prices of agricultural produce, increased planting of grain crops worldwide, and higher yield per unit of agricultural land, mainly by increased application of fertilizers.

In the short term, demand for fertilizers is volatile and is affected by factors such as weather in the world's central agricultural growing regions, fluctuations in planting of the main crops, agricultural input costs, agricultural product prices and developments in biotechnology. Some of these factors are influenced by subsidies and credit lines granted to farmers or to producers of agricultural inputs in various countries, and by environmental regulations. Changes in exchange rates, legislation and international trade policy also affect the supply, demand and level of consumption of fertilizers worldwide. Notwithstanding the volatility that can by caused in the short term as a result of these factors, the Company estimates that the policy of most countries in the world is to ensure orderly and high-quality supply of food to the population, thereby encouraging agricultural production, which should preserve the long-term growth trend.[2]

In 2009, the demand for fertilizers, particularly potash, was low compared to prior years. International suppliers did not renew contracts for potash supply to China in 2009 and import to the largest potash consumer in the world fell to below 2 million tons, compared with import of 9 million tons and 5 million tons in 2007 and 2008, respectively, inter alia due to the increase in local potash production. In 2009, the demand for potash in Europe was also low. After an unprecedented slump in the global economy and consequently, in fertilizer consumption, farmers gradually started to return to the application of larger quantities of fertilizers. Demand for fertilizers increased as from the second half of 2009 and the trend continues up to the present.

At the end of December 2009, it was announced that Chinese importers (Sinofert, CNAMPGC) and BPC, a trading company representing Belaruskali and Uralkali signed contracts for the supply of potash in 2010, in quantities similar to those supplied in 2008 and at a CFR price of $350 per ton. This price is a significant decrease compared to the estimated CFR price of about $600 per ton in 2008. In January 2010, ICL signed contracts with customers in China for the supply of potash in a total scope of 620,000 tons in 2010 (including 100 thousand optional tons), with terms that are similar to the terms in the BPC contracts.

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[1] The assessments of the surplus of revenues over expenses in euro in this paragraph are forward-looking information and there is no certainty that they will be realized. They could change due to fluctuations in world markets as well as local markets, especially at ICL's production sites and in the target markets for ICL products, including*, inter alia*, changes in the levels of supply and demand and in the prices of the products and changes in the magnitude of the operating expenses of the companies whose functional currency is the euro.

[2] The assessments of future trends in this paragraph are forward-looking information and there is no certainty that they will be realized, when and at what pace. They could change due to fluctuations in world markets as well as local markets, especially at ICL's production sites and in the target markets for ICL products, including*, inter alia*, changes in the levels of supply and demand and in the prices of the products, the commodities and the cereals. There could also be impact from actions taken by governments, producers and consumers. In addition there could be possible impact of the situation in the financial markets, including changes in exchange rates, credit conditions and interest rates.

At the beginning of the year, the Government of India published its new policy for fertilizer subsidies, which came into effect on April 1, 2010. The plan focuses on the shift from subsidy of a list of products to subsidy of a list of nutrients. In addition, the trend of the subsidy policy is to gradually change the method of payment from payment to the producers/importers to direct payment of the subsidy to the farmer. In respect of the subsidies for imported potash and phosphate fertilizers, a policy has been established for 2010-2011 according to which the final retail price will be abolished, but restrictions will be set on changes to the final retail price with the intention that the price will remain at a similar level as today.

In mid-February 2010, the Canadian Export Association (Canpotex) finalized an agreement to sell 600,000 tons of potash to its Indian customers, to be supplied in the second quarter of 2010 at a CFR price of $370 per ton. In March 2010, BPC finalized an agreement for the supply of 900,000 tons of potash over one year under similar terms. In March 2010, ICL Fertilizers also signed an agreement with a number of customers in India for the sale of 1,430,000 tons of potash (including an optional 90,000 tons) over one year, as from April 2010, at a CFR price of $370 per ton.

The scope of potash supply contracts signed in India with all potash producers, for delivery from April 2010 to March 2011, reached a peak of 6 million tons. In the Company's estimation all shipments to the Indian market for all potash producers, during the second quarter of 2010, reached a quarter of the quantity that was established for the yearly contracts.

Import of potash to Brazil, in the reporting period, increased significantly compared with the corresponding period last year. With the advent of the third quarter, there is evidence of greater activity in potash purchasing in Brazil as the fertilizing season approaches.

The demand in Europe of fertilizers in general, and potash in particular, which was very low in the prior season is gradually returning to normal consumption levels. Demand recovered in the agricultural markets in France and Germany, the biggest agricultural markets in Europe.

Demand for fertilizers in the U.S. during last year's fertilizing season increased, and following the relatively early summer harvest, expectations are for a long autumn fertilizing season.

In May this year, an enormous transaction was closed in which the controlling shareholder in the Russian potash producer Uralkali sold most of its shares to three investors. In addition, announced the intention of the buyers to enter into a similar transaction to acquire Silvinit.

Due to extreme weather conditions in Russia and countries in Europe, a significant negative impact is expected on the grain crop in these countries. The Russian government declared a ban on export of grain until December 2010, which caused a sharp increase in future prices of all grain, in particular wheat.

The US Agricultural Office's (USDA) forecast, from August 2010, anticipates a decrease in international grain stores despite good grain crops in the United States, Australia and China. According to this forecast international grain stores are expected to be approximately 444 million ton at the end of this agricultural year, a decrease of approximately 4.3% in relation to the previous forecast in July 2010. At the end of the agricultural season 2009/10 international grain stores totaled approximately 477 million ton. The percentage of international grain stores to anticipated needs for 2010/11 is only approximately 19.8%, a decrease compared to the percentage anticipated for 2009/10 of 21.7%. The forecast presents a change in the direction of the percentage of inventory to needs of grain after an increase in the last three years.

The operations of ICL Industrial Products are largely affected by the level of activity in several markets, including electronics (primarily printed circuits), construction, automotive, oil drilling, furniture, textile and water treatment. In 2009, there was a sharp decline in demand for flame retardants following the global economic crisis and its effect on the electronics, construction and automotive markets. As of the third quarter of 2009, there was an increase in demand which continued in the first half of 2010, with demand in the reporting period for most of the segment's products, and especially flame retardants, substantially higher than in the corresponding period last year. The ongoing increase in demand for flame retardants, stems mainly from the strengthening demand for electronic, automotive and construction products. Selling prices of segment products, which decreased gradually in 2009 as a result of the global economic crisis, started to rise with the recovery of demand, a rise that is reflected mainly in the higher average prices of flame retardants compared with the corresponding period last year. Production of bromine in China continued to decrease, because of depletion of the bromine resources, a harsh winter and high production costs. These factors also brought about an increase in the prices of bromine and bromine-based flame retardants in the Chinese market and a significant decrease in production quantities of flame retardants in China.

The operations of ICL Performance Products are affected by competition in the target markets, by price volatility in the fertilizer market, which affects the segment's principal raw materials, and by volatility in energy prices. During the first half of 2010, demand improved compared with 2009, and segment sales in the second quarter exceeded those of the prior quarters. In Europe, the pressure to lower prices, which typified 2009, continued into the first half of 2010, while in North America, where that pressure started at the end of 2009, it lessened during the first quarter of 2010 and during the second quarter there has been a slight rise in the selling pies of some of the segment's products.

Marine shipping costs accounted for 7% of total operating costs of ICL in the reporting period. In recent years, bulk shipping prices have been highly volatile. From the beginning of 2009, bulk shipping prices increased to a level of 3,005 points (according to the Baltic Dry Index – BDI) at the end of the year. During the reporting period, that volatility continued and the average BDI in the second quarter of 2010 was 3,348 points, compared with 2,660 points in the corresponding quarter last year.

Energy costs account for 8% of the total operating costs of ICL in the reporting period. As a result of the global economic crisis, energy prices started to fall in the fourth quarter of 2008. The trend reversed in the third quarter of 2009, and energy prices started to rise, and in the reporting period, energy prices were higher than in the corresponding period last year.

The beginning of December 2009 saw completion of the project for laying the gas pipeline to Sdom for the production of electricity at the power plant of Dead Sea Works in Sdom and the heating and drying processes in the production ovens of the plants in Sdom. During the reporting period the plants in Sdom commenced gradual reconfigurations for the use of gas. As of the date of the report, 85% of the reconfigurations for plants in Sdom where the reconfigurations were planned were completed. As the reconfigurations for gas are being implemented gradually, the impact of the reconfigurations on the results of operations in the reporting period is not significant. It is anticipated that the shift to natural gas will bring a significant decrease in the pollutants in the area of the plants, will improve the quality of the products, will reduce maintenance costs, and will contribute to considerable financial savings as a result of substitution for other, more expensive fuels.

Israel Natural Gas Lines Ltd. is meant to complete the connection of the pipeline to the remainder of the Company's plants in Mishor Rotem and Ramat Hovav during 2010. At the same time, the facilities are being converted for the use of natural gas.

1.3 This Directors' Report is attached to the interim financial statements for the period ended June 30, 2010, and assumes that the financial statements are available to the reader. The Directors' Report is in condensed form for the period and assumes that the Periodic Report for 2009 is also available to the reader.

The financial data, including comparative figures, are taken from the financial statements of ICL, which were prepared in accordance with International Financial Reporting Standards (IFRS).

2. Results of Operations

2.1 Principal financial results

Hereunder the condensed results of operations in the reviewed period, compared with the results for the corresponding period last year, in millions of dollars.

	1-6/2010		1-6/2009		4-6/2010		4-6/2009		2009	
	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales
Sales	2,877.2		1,981.0		1,494.7		1,082.6		4,554.3	
Gross profit	1,220.9	42.4	751.2	37.9	661.8	44.3	382.1	35.3	1,836.5	40.3
Operating income	687.9	23.9	396.3	20.0	384.4	25.7	190.7	17.6	938.2	20.6
Pre-tax income	672.5	23.4	422.0	21.3	370.4	24.8	193.3	17.9	942.8	20.7
Net profit to Company share-holders	536.4	18.6	311.1	15.7	295.9	19.8	152.3	14.1	770.4	16.9
Cash flow from current operations	740.6		638.8		521.1		399.6		1,225.9	
EBITDA*	790.2	27.5	495.0	25.0	437.2	29.3	235.5	21.8	1,199.7	26.9
Investment in property, plant and equipment, less grants	160.4		168.9		75.8		80.2		345.7	

* Calculated as follows, in millions of dollars:

	1-6/2010	1-6/2009	4-6/2010	4-6/2009	2009
Net profit to Company shareholders	536.4	311.1	295.9	152.3	770.4
Depreciation and amortization	104.4	98.6	52.3	51.0	204.6
Finance expenses (income), net	15.5	(24.7)	15.6	(2.2)	(6.1)
Taxes on income	133.9	110.0	73.4	34.4	168.5
Special or one-time expenses	-	-	-	-	88.5
Total	790.2	495.0	437.2	235.5	1,225.9

2.2 Results of operations for January – June 2010

Sales

Sales of ICL in the reporting period amounted to approximately $2,877.2 million, compared with $1,981.1 million in the corresponding period last year, an increase of about 45.2%. This increase reflects a sharp rise in quantities sold in all the Company's segments of operation, which contributed to an increase of $1,552 million in revenue. The increase was partially offset by falling selling prices compared with the corresponding period, which resulted in a decrease in sales of $690 million.

Below is a geographical breakdown of sales:

	1-6/2010		1-6/2009		2009	
CIF sales	**$ millions**	**%**	**$ millions**	**%**	**$ millions**	**%**
Israel	174.9	6.1	135.8	6.9	283.3	6.2
North America	536.8	18.7	486.9	24.6	1,013.1	22.2
South America	298.1	10.4	190.3	9.6	542.6	12.0
Europe	962.3	33.4	650.2	32.8	1,426.0	31.3
Asia	849.7	29.5	446.8	22.6	1,148.4	25.2
Rest of the world	55.4	1.9	71.1	3.5	140.9	3.1
Total	2,877.2	100.0	1,981.1	100.0	4,554.3	100.0

The breakdown in sales indicates an increase in sales in all geographical regions, mainly due to the increase in quantities sold as a result of improving demand for most of the Company's products, most notably the change in Europe and Asia due primarily to higher demand for fertilizers.

Gross profit

Gross profit amounted to $1,220.9 million, compared with a profit of $751.2 million in the corresponding period last year, an increase of $469.7 million. The gross profit margin out of sales amounted to 42.4%, compared with 37.9% in the corresponding period last year.

The increase in the gross profit compared with the corresponding period last year, stems mainly from an increase in the sales of most of the Company's products, which improved gross profit by $1,144 million. Conversely, a decrease in selling prices of some of the Company's products and a rise in energy prices, led to a decrease in gross profit of $645 million and $18 million respectively,

The impact of the weakening of the dollar against the shekel accounted for a decrease of approximately $11million in gross profit in the reporting period compared with the corresponding period last year.

Sales and marketing expenses

Expenses for this item amounted to $388.5 million, an increase of approximately $157.6 million compared with the corresponding period last year. The increase in expenses stems mainly from the increase in sales, which led to an increase of $125 million in sales and marketing expenses (due mainly to increased activity in the Fertilizers segment), and from a rise of $21 million in marine and land shipping prices.

General and administrative expenses

These expenses amounted to $120.4 million, an increase of $29.7 million compared with the corresponding period last year. Expenses in the reporting period in respect of amortizing the fair value of stock options issued to employees over the purchase period, amounted to approximately $16 million. In addition, the strengthening of the shekel against the dollar led to an increase in the expenses in this item in dollar terms.

Research and development expenses

R&D expenses (net of grants from the Chief Scientist) amounted to $29.6 million, an increase of about $3.4 million compared with the corresponding period last year.

Operating income

Operating income amounted to $687.9 million, an increase of 291.6 million compared with the corresponding period last year. The increase in operating income stems from the increase in gross profit noted above, which was partially offset by a rise in selling expenses as a result of the increase in the volume of sales, the rise in shipping prices mentioned above, and the strengthening of the shekel against the dollar in the period.

The percentage of operating income as a percentage of sales turnover is 23.9%, compared with 20% last year. The increase in the operating income margin stems mainly from the increase in sales.

Finance income/expenses

Net finance expenses amounted to $15.5 million, compared with income of approximately $24.7 million in the corresponding period last year. Finance expenses in the reporting period compared with finance income in the corresponding period last year, is mainly due to the following factors:

A. Income of $5.7 million from derivative financial instruments in the period, compared with income of $39 million in the corresponding period last year.

B. An increase of $7 million in net interest expenses following the increase in the average interest rate.

Tax expenses

Income tax expenses in the reporting period, amounted to $133.9 million, compared with $110.0 million in the corresponding period last year. The tax rate on pre-tax profit is about 19.9%, compared with 26% last year. The tax rate in the reporting period compared with the corresponding period last year is impacted by the following factors:

A. The strengthening of the shekel compared to the dollar caused a decrease in the tax rate of the companies operating in Israel, due to the differences in the measurement basis. The decrease in the tax rate in the reporting period compared to the same period in the prior year is due to tax expenses recognized in the same period for the prior year in relation to dividends from overseas subsidiaries.

B. An increase in expenses not recognized for tax purposes, due mainly to the charging of expenses in the reporting period in respect of amortizing the fair value of stock options issued to employees over the purchase period.

Net Profit

Net profit for the shareholders of the Company amounted to $530.8 million, compared with $311.1 million in the corresponding period last year, an increase of $225.4 million.

The percentage of net profit out of sales turnover is approximately 18.6%, compared with 15.7% last year.

2.3 Results of operations for the period April – June 2010

Sales

Sales of ICL in the quarter amounted to $1,494.7 million compared with $1,082.6 million in the corresponding period last year, an increase of 38.1%. The increase reflects a sharp rise in quantities sold in all the Company's segments of operation.

The rise in quantities sold contributed $606 million to revenue. However, this was partially offset by the fall in selling prices, mainly in the Fertilizers segment, which resulted in a decrease of approximately $186 million in revenue, and by the strengthening of the dollar against the other functional currencies, which led to a decrease of $18 million in revenue.

Below is a geographical breakdown of sales:

	4-6/2010		4-6/2009	
	$ millions	%	$ millions	%
Israel	85.7	5.7	80.8	7.5
North America	283.1	18.9	252.6	23.3
South America	207.7	13.9	164.6	15.2
Europe	442.3	29.6	309.7	28.6
Asia	457.1	30.6	241.8	22.3
Rest of the world	18.8	1.3	33.1	3.1
Total	1,494.7	100.0	1,082.6	100.0

The breakdown indicates an increase in sales on all geographical regions with the recovery of demand as countries emerge from the global economic crisis. Significant improvement is seen in the European and Asian markets, mainly as a result of the recovery of the demand for fertilizers. For the first time Asia is the largest geographical market with respect to revenues.

Gross profit

Gross profit amounted to $661.8 million, compared with $382.1 million in the corresponding period last year, an increase of $279.7 million. The gross profit margin as a percentage of sales turnover is 44.3%, compared with 35.3% in the corresponding period last year.

The improvement in the margin stems mainly from the higher quantities sold of most of the Company's products, which contributed to an increase of $466 million in sales. The improvement was offset by the fall in the selling prices and a rise in energy prices, which decreased gross profit by approximately $176 million.

Sales and marketing expenses

Expenses for this item amounted to $202.8 million, an increase of $74.8million compared with the corresponding quarter last year, mainly as a result of increased sales, which resulted in an increase of $56 million in shipping expenses, and the rise in those expenses of approximately $18 million.

General and administrative expenses

Expenses for this item amounted to $60.2 million, an increase of about $16.3 million compared with the corresponding quarter last year, mainly due to a charge of approximately $8 million in respect of amortizing the fair value of stock options issued to employees in the reporting period, over the purchase period.

Research and development expenses

R&D expenses amounted to approximately $15 million, an increase of $2.7 million compared with the corresponding quarter last year.

Operating income

Operating income increased by $193.8 million compared with last year, reaching $384.4 million. The increase stems from the above-mentioned increase in gross profit, which was partially offset by a rise in selling expenses that resulted from the increase in sales, and by the rise in shipping expenses.

Operating income as a percentage of sales turnover is 25.7%, compared with 17.6% last year.

Finance income / expenses

Net finance expenses in the reporting period amounted to $15.6 million, compared with $2.2 million in the corresponding quarter last year. Finance expense in the quarter compared with finance income in the corresponding quarter last year, stems primarily from the following factors:

A. Expenses of approximately $14 million in respect of derivative financial instruments, compared with income of $31 million in the corresponding quarter last year.

B. An increase of $4 million in net interest expenses, following a rise in the average interest rate.

C. The effect of the change in the shekel/dollar exchange rate on employee benefit liabilities generated income of approximately $13 million in the quarter, compared with an expense of $18 million in the corresponding quarter last year.

Tax expenses

The tax expense in the quarter amounted to $73.4 million, compared with $34.4 million in the corresponding period last year. The tax rate on profit is 19.8%, compared with 17.8% last year.

The source of the rise in the tax rate in the quarter compared with last year is due to the following factors:

A. A rise in the proportionate part of pre-tax profit of companies abroad out of the total profit of the Group where the tax rates are relatively higher.

B. An increase in expenses not recognized for tax purposes, due mainly to the charging of expenses in the reporting period in respect of amortizing the fair value of stock options allotted to employees over the purchase period.

Net profit

Net profit for the shareholders of the Company amounted to $295.9 million, compared with $152.3 million in the corresponding period last year, an increase of approximately 143.6 million.

3. Segments of Operation

The segments of operation of ICL are presented below according to the management of segments described in the introduction to this report.

CIF sales by segment of operation	1-6/2010		1-6/2009		4-6/2010		4-6/2009	
	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales
ICL Fertilizers	1,587.5	52.4	836.2	39.4	821.6	52.1	465.1	40.4
ICL Industrial Products	651.1	21.5	457.9	21.6	358.9	22.8	247.8	21.5
ICL Performance Products	661.1	21.8	632.7	29.8	341.6	21.7	331.3	28.8
Others and offsets	(22.5)		54.3		(27.6)		38.4	
Total	**2,877.2**		**1,981.1**		**1,494.7**		**1,082.6**	

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

Operating income by segment of operation	1-6/2010		1-6/2009		4-6/2010		4-6/2009	
	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales
ICL Fertilizers	508.2	32.0	250.3	29.9	275.9	33.6	111.5	24.0
ICL Industrial Products	87.2	13.4	12.9	2.8	53.5	14.9	7.8	3.1
ICL Performance Products	99.0	15.0	102.8	16.2	54.8	16.0	50.6	15.3
Others and offsets	(6.5)		30.3		0.3		20.8	
Consolidated operating income	**687.9**		**396.3**		**384.4**		**190.7**	

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

3.1 ICL Fertilizers

Below is a breakdown of the sales and operating income of the segment in the reporting period, by areas of operation (before setoffs of inter-segment sales)

	1-6/2010	1-6/2009	4-6/2010	4-6/2009	1-12/2009
Sales					
Potash	68%	56%	67%	50%	64%
Phosphate	32%	44%	33%	50%	36%
Operating income					
Potash	89%	98%	85%	110%	98%
Phosphate	11%	2%	15%	-10%	2%

Sales

Sales in the reporting period amounted to $1,587.5million, an increase of $751.3 million compared with the corresponding period last year, representing an increase of 89.8%.

The increase in sales stems mainly from a sharp increase in quantities sold of potash and phosphate fertilizers, offset by a decrease in quantities sold of phosphate rock, which led to an increase of approximately $1,321 million in sales. This decrease in the selling prices of the potash and phosphate rock, net of the rise in the selling prices of the phosphate fertilizers, led to a decrease of approximately $590 million in sales.

Profitability

Operating income in the segment amounted to $508.2 million, an increase of $257.9 million compared with the corresponding period last year. The margin of operating income out of sales was 32%, compared with 29.9% last year.

The increase in operating income is mainly due to an increase in sales of potash and phosphate fertilizers, offset by the fall in the sales of rock, which increased operating income by approximately $783 million. The fall in selling prices of potash and phosphate rock, offset by a rise in the selling prices of phosphate fertilizers, reduced operating income by approximately $560 million. Operating income suffered the negative effects of suspension of production for defined periods at the various plants, which occurred mainly in the corresponding period last year. The net effect of these suspensions was to improve operating income in the reporting period compared with last year by approximately $30 million.

Potash

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

Potash – Revenue and profit (million of $)

$ millions	1-6/2010	1-6/2009	4-6/2010	4-6/2009	2009
Revenue *	1,102.5	484.9	563.7	240.5	1,429.0
Operating income	452.8	249.1	235.0	123.0	708.1

* Including revenue from inter-segment sales

The increase in revenue in the reporting period compared with the corresponding period last year is due to the sharp increase in the quantities of potash sold, which increased sales by approximately $1,171 million. This increase was partially offset by a fall in potash prices, which reduced sales by about $576 million. The effects of the exchange rate contributed to the increase in revenue by approximately $10 million.

The increase in operating income is mainly due to the effects of the rise in quantities sold, which increased operating income by $762 million. The increase was partially offset by a fall in selling prices amounting to about $548 million.

Potash – Production, sales and closing stock

Thousands of tons	1-6/2010	1-6/2009	4-6/2010	4-6/2009	2009
Production	2,054	2,069	1,057	1,072	4,109
Sales to external customers	2,728	646	1,455	347	2,562
Sales to internal customers	129	53	72	22	147
Total sales (including internal sales)	2,857	699	1,527	369	2,709
Closing stock	2,114	2,887	2,114	2,887	2,917

The quantity of potash sold to external customers in the reporting period is about 2.1 million tons higher than in the corresponding period last year. The quantity of potash produced in the reporting period is similar to the quantity produced in the corresponding period last year. In view of the high level of stock in the Company's plants in Europe at the beginning of the year, it was decided to reduce the scope of ICL's production in Europe, and production was suspended for two months in the potash production sites in Spain (mines and plants), with the exception of the compaction plant, commencing February 1, 2010. Operations resumed in these plants at the beginning of April 2010.

In January 2010, ICL signed contracts with a number of customers in China for the supply of 620,000 tons of potash in 2010 (including 100,000 tons of optional quantities).

In March 2010, ICL Fertilizers signed an agreement with a number of customers in India for the sale of 1,430,000 tons of potash (including an optional 90,000 tons) over one year, commencing April 2010, at a CFR price of $370 per ton.

Fertilizers and phosphates

Revenue from these products derive from sales in Israel and abroad of phosphate rock (as a raw material and for direct fertilization), fertilizers (including phosphate, compound, liquid and fully soluble fertilizers, which include various proportions of nitrogen, phosphate and potassium), phosphoric acid used as a raw material for the production of fertilizers (green acid), as well as other products.

Fertilizers and phosphates – Revenue and profit

$ millions	1-6/2010	1-6/2009	4-6/2010	4-6/2009	2009
Revenue *	525.4	383.3	279.6	236.2	787.7
Operating income	53.4	4.7	42.8	(11.3)	11.5

* Including revenue from inter-segment sales

The increase in revenue in the reporting period compared with the corresponding period last year is due mainly to the increase in quantities sold of phosphate fertilizers, offset by smaller quantities sold of phosphate rock, which increased sales by approximately $149 million. The fall in the selling prices of phosphate rock, offset by a rise in the selling prices of phosphate fertilizers, led to a reduction of approximately $14 million in sales.

The increase in operating income in the reporting period compared with the corresponding period last year stems from an increase in quantities sold of fertilizers, offset by smaller quantities sold of phosphate rock, amounting to a net increase of approximately $21 million. In contrast the fall in the prices of phosphate rock, offset by a rise in the selling prices of phosphate fertilizers, resulted in a decrease of approximately $12 million in operating income.

The operating income in the corresponding period last year was negatively impacted from suspensions in production for limited periods in various plants. The impact of the production suspensions was an improvement in operating income in the reporting period compared to the corresponding period in the prior year in the amount of $28 million.

Fertilizers and phosphates – Production and sales

Thousands of tons	1-6/2010	1-6/2009	4-6/2010	4-6/2009	2009
Phosphate rock					
Production	1,547	1,298	850	681	2,697
Sales*	292	333	104	250	610
Phosphate rock for internal uses	1,249	903	661	523	1,960
Fertilizers					
Production	838	329	435	188	917
Sales*	911	426	457	324	1,061

* To external customers

Phosphate rock is produced according to demand, both for internal uses and for sales to external customers, while maintaining appropriate stock levels.

The low production in the corresponding period last year is due to suspension of production for defined periods at a number of facilities, in response to the decline in the demand for fertilizers in the Company's main markets.

The increase in sales of phosphate fertilizer in the reporting period, compared with the corresponding period last year, is due to the rise in demand for phosphate fertilizers which commenced in the second quarter of 2009 and gained momentum in the second half of 2009, primarily in Brazil and in Europe.

3.2 ICL Industrial Products

Sales

Sales of ICL Industrial Products in the reporting period amounted to $651.1 million, an increase of $193.2 million compared with the corresponding period last year. The increase is due to an increase of approximately $200 in quantities sold, mainly $106 million in flame retardants, offset by $7.7 million due to the fall in the selling prices of some of the segment's products. The selling prices fell gradually in 2009 as a result of the economic crisis, while after the recovery in demand, selling prices in the segment started to rise.

Demand continued to improve in the second quarter of 2010, and was reflected in an increase in sales compared with the corresponding quarter last year and compared with the first quarter of 2010, amounting to $111.1 million and $66.9 million, respectively. Most of the improvement in sales stemmed from the increase in sales of flame retardants in the reporting quarter compared with the corresponding quarter last year and the first quarter of 2010, accounting for $59.8 million and $27.4 million, respectively.

Profitability

Operating income in the reporting period amounted to approximately $87.2 million, compared with $12.9 million in the corresponding period last year.

The increase was mainly due to the sharp increase in quantities sold, which contributed $69 million to operating income, and the effects of the fall in the prices of raw materials and energy, which contributed $23 million to the increase. Conversely, the increase was partially offset by the decrease in selling prices noted above, and the strengthening of the shekel against the dollar, which resulted in a decrease of approximately $6 million in operating income.

3.3 ICL Performance Products

Sales in this segment amounted to $661.1 million, an increase of approximately $28.4 compared with the corresponding period last year.

The increase stems from an increase in quantities in most of the segment's products, which resulted in an increase of about $104 million in sales. Conversely, the relatively low selling prices led to a decrease of $75 million in sales.

Profitability

The operating income of ICL Performance Products amounted to $99 million in the reporting period, a decrease of about $3.8 million compared with the corresponding period last year. The decrease is mainly due to the effects of the above-mentioned fall in selling prices, which was offset by the impact of the increase in quantities sold compared with the corresponding period last year, which contributed about $65 million to operating income, and by the fall in the prices of principal raw materials, which improved operating income by about $8 million.

4. The Financial Position and Sources of Financing of ICL

At June 30, 2010, an increase of $168.3 million was recorded in the net interest-bearing financial liabilities of ICL compared with the balance at the end of 2009, amounting to approximately $1,025.1 million.

ICL's sources of financing are short- and long-term loans, mostly from international banks, debentures which were issued to the public and to institutional investors in Israel and the USA, non-listed short-term commercial papers which are issued from time to time, and customer securitization, in which some of the companies in the Group sell customer receivables in consideration of a cash payment. Regarding the new securitization agreement signed by the Company after the balance sheet date – see Section 10.8.

5. Cash Flow

Cash flow generated by operating activities in the reporting period amounted to $740.6 million, compared with $638.8 million in the corresponding period last year. Cash flow from operating activities was adversely affected by one-time tax payments in the reporting period and by tax rebates received in the corresponding period last year, which together amounted to about $60 million. Cash flow from operating activities in the reporting period was the principal source for net financing of investments of about $160 million in property, plant and equipment and for payment of a dividend of $771 million.

6. Investments

In the reporting period, investments in property, plant and equipment amounted to approximately $160.4 million, compared with about $168.9 million in the corresponding period last year. Most of the investments were in Israel, for expanding production capacity, and investments in ecology and safety and for maintaining the existing situation.

7. Human Resources

The total number of employees in ICL as at June 30, 2010 is 10,923 (including contract workers and students), compared with 10,592 as at June 30, 2009, an increase of 331 employees. The increase in the number of employees stems mainly from the acquisition of companies by ICL Performance Products and ICL Industrial Products, investment in new facilities and expansion of production following the return to pre-crisis work formats. In addition, plans for recruiting engineers in various disciplines at ICL Fertilizers were reinstated.

8. Market Risk Exposure and Management

Base rates as at June 30, 2010:

Currency	Exchange rate
NIS/USD	0.25806
EUR/USD	1.22774
GBP/USD	1.50266
JPY/USD	0.14726
BRL/USD	0.55627

Update of sensitivity to changes in the exchange rates of balances in the statement of financial position at June 30, 2010:

	Increase (decrease) in fair value		Fair value	Increase (decrease) in fair value	
USD/NIS	**($ millions)**	**($ millions)**	**($ millions)**	**($ millions)**	**($ millions)**
Type of instrument	**Increase of 10%**	**Increase of 5%**		**Decrease of 5%**	**Decrease of 10%**
Cash and cash equivalents	(7.2)	(3.6)	71.9	3.6	7.2
Short-term deposits and loans	(2.3)	(1.2)	23.2	1.2	2.3
Trade receivables	(5.8)	(2.9)	57.6	2.9	5.8
Receivables and debit balances	(2.2)	(1.1)	22.0	1.1	2.2
Long-term deposits and loans	(16.9)	(8.5)	169.2	8.5	16.9
Credit from banks and others	0.3	0.1	(2.9)	(0.1)	(0.3)
Trade payables	21.1	10.6	(211.2)	(10.6)	(21.1)
Other payables	15.0	7.5	(149.6)	(7.5)	(15.0)
Bank loans	6.7	3.3	(67.0)	(3.3)	(6.7)
Debentures	36.2	18.1	(361.7)	(18.1)	(36.2)
Options	(17.1)	(6.9)	(2.2)	7.4	19.8
Forward	(10.9)	(5.7)	(1.5)	6.3	13.3
Embedded derivatives	1.3	0.6	1.0	(0.6)	(1.3)
Total	18.2	10.3	(451.2)	(9.2)	(13.1)

	Increase (decrease) in fair value		Fair value	Increase (decrease) in fair value	
CPI	**($ millions)**	**($ millions)**	**($ millions)**	**($ millions)**	**($ millions)**
Type of instrument	**Increase of 10%**	**Increase of 5%**		**Decrease of 5%**	**Decrease of 10%**
Long-term deposits and loans	7.2	3.6	71.5	(3.6)	(7.2)
Credit from banks and others	(0.2)	(0.1)	(2.2)	0.1	0.2
Other payables	(0.1)	0.0	(0.7)	0.0	0.1
Long-term bank loans	(6.7)	(3.3)	(67.0)	3.3	6.7
Fixed-interest debentures	(13.3)	(6.6)	(133.3)	6.6	13.3
CPI/USD swap	4.6	2.3	5.1	(2.3)	(4.6)
Forward	5.3	2.7	0.8	(2.7)	(5.3)
Embedded derivative	1.5	0.7	1.0	(0.7)	(1.5)
Total	(1.7)	(0.7)	(124.8)	0.7	1.7

	Increase (decrease) in fair value		Fair value	Increase (decrease) in fair value	
EUR/USD	**($ millions)**	**($ millions)**	**($ millions)**	**($ millions)**	**($ millions)**
Type of instrument	**Increase of 10%**	**Increase of 5%**		**Decrease of 5%**	**Decrease of 10%**
Cash and cash equivalents	(3.2)	(1.6)	32.2	1.6	3.2
Short-term deposits and loans	(0.2)	(0.1)	1.8	0.1	0.2
Trade receivables	(12.6)	(6.3)	126.1	6.3	12.6
Receivables and debit balances	(1.2)	(0.6)	12.1	0.6	1.2
Long-term deposits and loans	(0.2)	(0.1)	2.1	0.1	0.2
Credit from banks and others	0.7	0.3	(6.8)	(0.3)	(0.7)
Trade payables	14.6	7.3	(146.4)	(7.3)	(14.6)
Other payables	6.5	3.2	(64.8)	(3.2)	(6.5)
Long-term bank loans	9.7	4.8	(96.7)	(4.8)	(9.7)
Options	6.4	2.9	6.3	(2.8)	(5.6)
Forward	17.5	8.3	0.7	(7.5)	(14.3)
Embedded derivative	1.1	0.5	6.7	(0.5)	(1.1)
Total	39.1	18.6	(126.7)	(17.7)	(35.1)

	Increase (decrease) in fair value		Fair value	Increase (decrease) in fair value	
GBP/USD	**($ millions)**	**($ millions)**	**($ millions)**	**($ millions)**	**($ millions)**
Type of instrument	**Increase of 10%**	**Increase of 5%**		**Decrease of 5%**	**Decrease of 10%**
Cash and cash equivalents	(0.1)	0.0	0.9	0.0	0.1
Short-term deposits and loans	(3.3)	(1.7)	33.4	1.7	3.3
Trade receivables	(3.0)	(1.5)	29.7	1.5	3.0
Receivables and debit balances	0.0	0.0	(0.2)	0.0	0.0
Credit from banks and others	0.4	0.2	(4.5)	(0.2)	(0.4)
Trade payables	0.7	0.3	(6.9)	(0.3)	(0.7)
Other payables	1.7	0.9	(17.4)	(0.9)	(1.7)
Forward	(0.1)	0.0	0.0	0.0	0.1
Options	(0.0)	0.0	0.0	0.0	0.0
Total	(3.7)	(1.8)	35.0	1.8	3.7

	Increase (decrease) in fair value		Fair value	Increase (decrease) in fair value	
JPY/USD	**($ millions)**	**($ millions)**	**($ millions)**	**($ millions)**	**($ millions)**
Type of instrument	**Increase of 10%**	**Increase of 5%**		**Decrease of 5%**	**Decrease of 10%**
Cash and cash equivalents	(0.8)	(0.4)	8.2	0.4	0.8
Trade receivables	(1.7)	(0.9)	17.2	0.9	1.7
Receivables and debit balances	0.0	0.0	0.0	0.0	0.0
Long-term deposits and loans	0.0	0.0	0.2	0.0	0.0
Credit from banks and others	0.0	0.0	0.0	0.0	0.0
Trade payables	0.3	0.1	(2.6)	(0.1)	(0.3)
Other payables	0.0	0.0	(0.5)	0.0	0.0
Options	0.7	0.3	(0.2)	(1.3)	(1.3)
Forward	1.1	0.6	(0.2)	(0.6)	(1.3)
Total	(0.4)	(0.3)	22.1	(0.7)	(0.4)

	Increase (decrease) in fair value		Fair value	Increase (decrease) in fair value	
BRL/USD	**($ millions)**	**($ millions)**	**($ millions)**	**($ millions)**	**($ millions)**
Type of instrument	**Increase of 10%**	**Increase of 5%**		**Decrease of 5%**	**Decrease of 10%**
Cash and cash equivalents	(0.9)	(0.4)	8.9	0.4	0.9
Trade receivables	(0.7)	(0.3)	6.6	0.3	0.7
Receivables and debit balances	0.0	0.0	0.1	0.0	0.0
Trade payables	0.5	0.3	(5.2)	(0.3)	(0.5)
Other payables	0.1	0.0	(0.6)	0.0	(0.1)
Total	(1.0)	(0.4)	9.8	0.4	1.0

	Increase (decrease) in fair value		Fair value	Increase (decrease) in fair value	
CNY/USD	**($ millions)**	**($ millions)**	**($ millions)**	**($ millions)**	**($ millions)**
Type of instrument	**Increase of 10%**	**Increase of 5%**		**Decrease of 5%**	**Decrease of 10%**
Cash and cash equivalents	(0.7)	(0.4)	7.0	0.4	0.7
Short-term deposits and loans	(1.5)	(0.8)	15.4	0.8	1.5
Trade receivables	(1.9)	(0.9)	18.5	0.9	1.9
Receivables and debit balances	0.0	0.0	0.2	0.0	0.0
Credit from banks and others	0.1	0.1	(1.5)	(0.1)	(0.1)
Trade payables	0.6	0.3	(5.9)	(0.3)	(0.6)
Other payables	0.4	0.2	(4.2)	(0.2)	(0.4)
Total	(3.0)	(1.5)	29.5	1.5	3.0

Update of sensitivity to changes in the LIBOR interest rate at June 30, 2010:

	Increase (decrease) in fair value		Fair value	Increase (decrease) in fair value	
	($ millions)	($ millions)	($ millions)	($ millions)	($ millions)
Type of instrument	**Increase of 1%**	**Increase of 0.5%**		**Decrease of 0.5%**	**Decrease of 1%**
Fixed-interest debentures	3.2	1.6	(94.6)	(1.6)	(3.3)
Collar transactions	3.6	1.7	(7.8)	(1.7)	(3.1)
Swap transactions	7.8	4.0	(7.9)	(4.1)	(8.5)
Other options	0.5	0.3	(0.8)	(0.4)	(1.0)
NIS/USD swap	7.5	3.8	(3.5)	(3.8)	(7.8)
Total	22.6	11.4	(114.6)	(11.6)	(23.7)

Update of sensitivity to changes in the index interest rate at June 30, 2010:

Sensitivity to changes in the index interest rate	Increase (decrease) in fair value		Fair value	Increase (decrease) in fair value	
	($ millions)	($ millions)	($ millions)	($ millions)	($ millions)
Type of instrument	**Increase of 1%**	**Increase of 0.5%**		**Decrease of 0.5%**	**Decrease of 1%**
Fixed-interest debentures	4.6	2.3	(133.3)	(2.4)	(4.9)
Long-term bank loans	4.0	2.1	(67.0)	(2.2)	(4.4)
CPI/USD swap	(1.5)	(0.8)	5.1	0.8	1.6
Total	7.1	3.6	(195.2)	(3.8)	(7.7)

Update of sensitivity to changes in the shekel interest rate at June 30, 2010:

Sensitivity to changes in the shekel interest rate	Increase (decrease) in fair value		Fair value	Increase (decrease) in fair value	
	($ millions)	($ millions)	($ millions)	($ millions)	($ millions)
Type of instrument	**Increase of 1%**	**Increase of 0.5%**		**Decrease of 0.5%**	**Decrease of 1%**
Fixed-interest debentures	5.8	2.9	(202.0)	(3.0)	(6.0)
NIS/USD swap	(9.3)	(4.7)	(2.0)	4.8	9.7
Total	(3.5)	(1.8)	(204.0)	1.8	3.7

Update of positions in derivatives at June 20, 2010

Hedging transactions against the effect of changes in exchange rates on cash flow $ thousands				
	Nominal value Up to one year		Fair value Up to one year	
	Long	Short	Long	Short
Transactions in dollars against other currencies (direction of transaction in derivatives is dollar purchase)				
EUR/USD in $ thousands				
Forward	156,714		667	
Call options	65,656		(718)	
Put options	65,656		7,060	
JPY/USD in $ thousands				
Forward	11,378		(238)	
Call options	15,000		75	
Put options	15,000		(315)	
NIS/USD in $ thousands				
Forward		266,075		(1,463)
Call options		220,000		(4,203)
Put options		308,000		1,988
GBP/USD in $ thousands				
Forward	601		3	
Call options	1,640		(2)	
Put options	1,640		149	
Other currencies				
Call options				
Put options				
GBP/EUR in $ thousands **(Direction of transaction is GBP purchase)**				
Forward		5,433		95
Swap contracts and futures contracts for the Company's liabilities				
Israeli fixed to variable interest swap contract		67,277		1,536
Fixed interest shekel to dollar liability swap contract		48,177		2,211
Fixed interest CPI-linked liability to variable interest dollar liability swap contract – not recognized for accounting		38,892		5,139
Fixed-interest shekel to dollar liability swap contract - recognized for accounting		178,553		(5,748)
Futures contract for CPI purchase – more than one year	53,291		782	

Principal terms of the material derivative instruments used for economic hedging of foreign currency risk:

	Nominal value in $ thousands	Carrying amount/fair value	Average transaction rate
Forward transactions			
USD/NIS	266,075	(1,463)	3.85
EUR/USD	156,714	667	1.23

The expiration date of all the derivatives used for economic hedging of foreign currency risk is up to one year.

Interest-hedging transactions – for hedging against changes in variable interest rate (LIBOR) on dollar loans (in $ thousands)								
	Nominal value				Fair value			
	Up to one year		Over one year		Up to one year		Over one year	
	Long	Short	Long	Short	Long	Short	Long	Short
Swap			356,262	68,000			(15,788)	7,847
Caps			195,000				753	
Floors			195,000				(8,517)	
Other options			20,000				(825)	

In swap transactions, the Company replaces the variable interest rate paid on loans received with fixed interest at rates between 2.4% and 4.3%. In cap and floor transactions, the Company fixes the float of variable interest loans in the range of 2.28% to 5.25%.

For CPI-linked shekel debentures issued by the Company, the Company has transactions in derivatives to swap cash flows from shekels to dollars, as well as transactions in derivatives for hedging most of the exposure to changes in the CPI. The transactions to hedge exposure to the cash flow for expanded Debentures Series B were accounted for in the financial statements as an accounting hedge. Following application of the accounting hedge, the Company recognized some of the fair value changes of the derivatives in capital reserve (a loss of about $1.1 million). None of the other hedging transactions made by the Company are accounted for as an accounting hedge in the financial statements.

9. Stages of the Company's preparation and progress in the application of the provisions of the Securities (periodic and immediate reports) Regulations, 5770-2009, in the matter of the effectiveness of its internal control

On November 24, 2009, the Knesset Finance Committee approved an amendment to the Securities (Periodic and immediate reports) Regulations, 5730-1970 ("the Amendment") requiring all reporting corporations whose securities are listed on the Tel Aviv Stock Exchange, to declare the effectiveness of the internal control of their financial reporting and disclosure. The Amendment defines a roadmap for gradual application of its provisions. The periodic report for the year ended December 31, 2010 ("the Start Date"), the Company must include in the report disclosures on the following subjects:

A. A report of the Board of Directors and Management of the Company on the effectiveness of the internal controls over the financial reporting and disclosure.

B. Declarations signed by the CEO and by the most senior financial officer, that to their knowledge, the reports do not contain any misstatement of a material fact and there is no material fact missing from them that is needed so that the representations made in them are not misleading, and that they properly reflect, from all material respects, the financial condition, the results of operations and the cash flows of the corporation. They must also declare that they disclosed to the auditors, to the board of directors and to the audit committee of the Company any information concerning the significant deficiencies and material weaknesses in the internal control and any fraud, that they have set controls and procedures to assure the propriety of the financial reporting and disclosure, and that they have assessed the effectiveness of the internal control.

C. An opinion of the company's auditor concerning the effectiveness of the internal control.

The provisions of the Amendment require that in the period from the date of publication of the Amendment to the Start Date, the Directors' Report should contain details of the actions taken by the corporation up to the date of the report, for the company's preparation and progress in applying the provisions of the Amendment.

Below is disclosure of the actions taken by the Company to the date of the reports for the year ended December 31, 2009:

A. ICL commenced preparation for application of the provisions of the Amendment with a detailed plan. The plan of action is based on assessment of the risks in financial reporting and disclosure, and established a detailed timetable for progress and the identity of the management who are responsible for its implementation.

B. The person in charge of application of the provisions of the Amendment in the Group is the CFO, Mr. Avi Doitchman.

C. The processes that ICL defined as very material to financial reporting and disclosure in the consolidated financial statements were determined after assessment of the risks in financial reporting and disclosure. For making this assessment, quantitative criteria were determined, derived from the results of the Group's operations, and qualitative criteria such as: the size and composition of the accounts included in the accounting system; sensitivity to loss due to error, contingent liabilities or fraud; the scope of operations; the complexity and homogeneity of the transactions included in an account or disclosure; the level of subjectivity in an account or disclosure; the existence of transactions with related parties in an account, and changes from prior periods in the characteristics of the account or disclosure.

   The very material processes to financial reporting and disclosure in the Company's consolidated financial statements that were identified, are these:

   a. Sales – pricing and orders, invoicing, receipt of cash, and revenue recognition.
   b. Purchasing – payments.
   c. Treasury – bank reconciliations.
   d. Inventory – control of quantities and determining the cost of the inventory.

   From the previous report at December 31, 2009 to the date of approval of this report, ICL has assessed the risks of the internal control which formed the basis for documentation of business processes and the existing internal controls of the financial reporting and disclosure. In addition an analysis of deficiencies in existing internal controls in financial reporting and disclosure was performed and appropriate internal controls were implemented to remediate the deficiencies identified in the documentation of the processes of most of the companies. The deficiencies that were identified in documenting the processes in the remaining companies are in advanced stages of remediation.

10. Update on the Description of the Company's Business and Material Events During and After the Balance Sheet Period

Below are updates concerning certain subjects described in the chapter Description of the Company's Business, in the section Additional General Information at the corporate level, and in the chapter Additional Details – in the Periodic Report for 2009 ("the Periodic Report), as well as events during and after the balance sheet period.

10.1 On January 7, 2010, the Board of Directors of the Company approved an allotment of up to 11,000,000 unlisted options, free of charge, to 318 officers and senior employees in the Group. For additional details, see Section 5.2E in the Description of the Company's Business at December 31, 2009.

10.2 On April 7, 2010, following items in the media, the Company gave its approval for it, Israel Refineries and Israel Corporation (through O.P.C. Rotem Ltd., a subsidiary of Israel Corporation), to negotiate with a umber of entities in connection with the purchase of natural gas. For additional details, see also the immediate report dated April 7, 2010 (Ref: 2010-01-441966)

10.3 Update for Section 26 in the chapter Additional Details about the Company – The Board of Directors of the Company: On May 2, 2010, Mrs. Noga Yatziv, a director of the Company, gave notice of her resignation as a member of the Board of Directors of the Company, effective from the date of the notice. See also the immediate report dated May 2, 2010 (Ref. 2010-01-465285).

10.4 Update for Section 26A in the chapter Additional Details about the Company – Company Officers: On May 24, 2010, the Board of Directors of the Company extended the term of office of the internal auditor, Mr. Shmuel Ben-Shimol, for a further three years. See also the immediate report dated May 24, 2010 (Ref. 2010-01-492630).

10.5 On March 23rd, 2010 the ICL Board of Directors decided to distribute a cash dividend in the amount of $155 million (net dividend after deduction of the share of a subsidiary is $154.7 million), which was distributed on April 27, 2010.

10.6 On May 24, 2010, the Board of Directors of the Company resolved to distribute a dividend of $668 million (the net dividend, after deduction of the share of a consolidated company, is $666.8 million), which was distributed on June 28, 2010. The dividend amount consisted of a one-time dividend of $500 million and a quarterly dividend of $168 million. The Board of Directors also confirmed a policy of quarterly dividends of up to 70% of net profit. For additional details, see the immediate report dated May 25, 2010 (Ref. 2010-01-492390).

10.7 On August 23, 2010, the Board of Directors of the Company resolved to distribute a dividend of $177 million (the net dividend, after deduction of the share of a subsidiary, is $176.7 million), which will be distributed on September 20, 2010.

.10.8 <u>Sale of customer debts in a securitization transaction</u>

After the balance sheet date (on July 2, 2010), the Company and certain consolidated companies entered into a set of agreements concerning a securitization transaction with Rabobank International and Credit Agricol, for the sale of their customer debts to a foreign company established specially for the purpose and is not owned or controlled by the Group.

These agreements replace the prior securitization agreement, which ended in July 2010.

For additional details with regards to the securitization, see Note 5(7) to the financial statements.

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

Date: August 23, 2010

Akiva Mozes **CEO**	**Nir Gilad** **Chairman of the Board of Directors**