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

# Israel Chemicals Ltd.

## Condensed Consolidated Interim Financial Statements

## As at March 31, 2010
## (Unaudited)
## In thousands of U.S. Dollars

**Condensed Consolidated Interim Financial Statements as at March 31, 2010 (Unaudited)**

## Contents

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**Review Report of the Independent Auditors to the Shareholders of Israel Chemicals Ltd.**

**Introduction**

We have reviewed the accompanying financial information of Israel Chemicals Ltd., including the condensed consolidated interim statement of financial position as at March 31, 2010 and the related condensed consolidated interim statements of income, other comprehensive income, changes in equity and cash flows for the three-month period then ended. The Board of Directors and Management are responsible for preparation and presentation of this interim financial information in accordance with IAS 34 "*Interim Financial Reporting*", and are also responsible for preparation of the financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

**Scope of Review**

We conducted our review in accordance with Review Standard 1, "Review of Financial Information for Interim Periods Performed by the Independent Auditor of the Entity". A review of financial information for interim periods consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the abovementioned financial information was not prepared, in all material respects, in accordance with International Accounting Standard IAS 34.

In addition to that mentioned in the previous paragraph, based on our review, nothing has come to our attention that causes us to believe that the abovementioned financial information does not comply, in all material respects, with the disclosure requirements of Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Somekh Chaikin
Certified Public Accountants (Isr.)

May 24, 2010

**Condensed Consolidated Interim Statement of Financial Position as at**

| | March 31 2010 | March 31 2009 | December 31 2009 |
|---|---|---|---|
| | (Unaudited) | (Unaudited) | (Audited) |
| | US$ thousands | US$ thousands | US$ thousands |
| **Current assets** | | | |
| Cash and cash equivalents | **406,157** | 270,917 | 257,970 |
| Short-term investments, deposits and loans | **208,475** | 122,860 | 167,549 |
| Trade receivables | **1,105,932** | 964,557 | 969,620 |
| Other receivables and debit balances, including derivative instruments | **124,433** | 115,157 | 118,538 |
| Income taxes refundable | **19,255** | 82,488 | 24,568 |
| Inventories | **1,133,618** | 1,318,166 | 1,233,250 |
| **Total current assets** | **2,997,870** | 2,874,145 | 2,771,495 |
| **Non-current assets** | | | |
| Investments in associated companies | **26,709** | 27,400 | 28,762 |
| Long-term deposits and receivables | **204,306** | 144,225 | 209,008 |
| Surplus of plan assets over liabilities for defined benefit plan | **70,598** | 43,323 | 66,057 |
| Long-term derivative instruments | **20,183** | 7,909 | 16,739 |
| Inventories - non-current | **61,043** | 53,403 | 55,441 |
| Deferred taxes, net | **111,349** | 35,963 | 100,271 |
| Property, plant and equipment | **2,090,020** | 1,924,063 | 2,093,133 |
| Intangible assets | **545,603** | 510,757 | 566,683 |
| **Total non-current assets** | **3,129,811** | 2,747,043 | 3,136,094 |
| **Total assets** | **6,127,681** | 5,621,188 | 5,907,589 |

**Condensed Consolidated Interim Statement of Financial Position as at**

| | March 31 2010 | March 31 2009 | December 31 2009 |
|---|---|---|---|
| | (Unaudited) | (Unaudited) | (Audited) |
| | US$ thousands | US$ thousands | US$ thousands |
| **Current liabilities** | | | |
| Credit from banks and others | **38,045** | 382,578 | 103,951 |
| Trade payables | **453,352** | 372,530 | 469,798 |
| Provisions | **32,663** | 15,950 | 22,115 |
| Other payables, including derivative instruments | **528,138** | 618,864 | 504,030 |
| Dividend payable | **154,729** | 174,692 | - |
| Income taxes payable | **22,960** | 40,703 | 69,723 |
| **Total current liabilities** | **1,229,887** | 1,605,317 | 1,169,617 |
| **Non-current liabilities** | | | |
| Loans from banks and others | **800,065** | 870,748 | 686,077 |
| Debentures | **508,161** | 87,000 | 503,794 |
| Long-term derivative instruments | **13,812** | 16,844 | 14,228 |
| Provisions | **89,365** | 60,622 | 106,919 |
| Deferred taxes, net | **101,705** | 113,660 | 101,785 |
| Employee benefits | **547,235** | 409,851 | 530,320 |
| **Total non-current liabilities** | **2,060,343** | 1,558,725 | 1,943,123 |
| **Total liabilities** | **3,290,230** | 3,164,042 | 3,112,740 |
| **Equity** | | | |
| Share capital | **541,175** | 540,784 | 541,028 |
| Share premium | **85,402** | 81,546 | 84,059 |
| Capital reserves | **1,509** | (34,931) | 33,903 |
| Retained earnings | **2,446,677** | 2,067,357 | 2,374,883 |
| Treasury shares | **(260,113)** | (260,113) | (260,113) |
| **Total equity attributable to the equity holders of the Company** | **2,814,650** | 2,394,643 | 2,773,760 |
| **Non-controlling interest** | **22,801** | 62,503 | 21,089 |
| **Total equity** | **2,837,451** | 2,457,146 | 2,794,849 |
| **Total liabilities and equity** | **6,127,681** | 5,621,188 | 5,907,589 |

| --- | --- | --- |
|---|---|---|
| Nir Gilad<br>Chairman of the Board of Directors | Akiva Mozes<br>Chief Executive Officer | Avi Doitchman<br>CFO |

Date the financial statements were approved: May 24, 2010.

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

## Condensed Consolidated Interim Statement of Income

| | For the three month period ended | | For the year ended |
|---|---|---|---|
| | March 31 2010 | March 31 2009 | December 31 2009 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | US$ thousands | US$ thousands | US$ thousands |
| Sales | **1,382,481** | 898,485 | 4,554,316 |
| Cost of sales | **823,339** | 529,405 | 2,717,786 |
| **Gross profit** | **559,142** | 369,080 | 1,836,530 |
| Selling, transportation and marketing expenses | **185,754** | 102,961 | 558,125 |
| General and administrative expenses | **60,282** | 46,851 | 195,889 |
| Research and development expenses | **14,657** | 13,936 | 53,823 |
| Other expenses | **2,420** | 592 | 94,144 |
| Other income | **(7,438)** | (882) | (3,624) |
| **Operating income** | **303,467** | 205,622 | 938,173 |
| Financing expenses | **21,417** | 18,097 | 83,424 |
| Financing income | **(21,523)** | (40,668) | (89,539) |
| **Financing income, net** | **(106)** | (22,571) | (6,115) |
| Share in income (losses) of associated companies, net of tax | **(1,425)** | 571 | (1,482) |
| **Income before taxes on income** | **302,148** | 228,764 | 942,806 |
| Taxes on income | **60,556** | 75,543 | 168,492 |
| **Income for the period** | **241,592** | 153,221 | 774,314 |
| **Attributable to:** | | | |
| Equity holders of the company | **240,532** | 158,753 | 770,420 |
| Non-controlling interest | **1,060** | (5,532) | 3,894 |
| **Income for the period** | **241,592** | 153,221 | 774,314 |
| **Earnings per share attributable to the holders of the Company:** | **$** | **$** | **$** |
| Basic earnings per share | **0.190** | 0.126 | 0.610 |
| Diluted earnings per share | **0.190** | 0.126 | 0.608 |

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

## Condensed Consolidated Interim Statement of Other Comprehensive Income

| | For the three month period ended | | For the year ended |
|---|---|---|---|
| | March 31 2010 | March 31 2009 | December 31 2009 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | US$ thousands | US$ thousands | US$ thousands |
| **Income for the period** | **241,592** | 153,221 | 774,314 |
| **Components of other comprehensive income** | | | |
| Foreign currency translation differences in respect of foreign operations | **(35,156)** | (39,395) | 26,510 |
| Change in fair value of financial assets available for sale | **(1,385)** | 4,313 | 6,816 |
| Actuarial gains (losses) from defined benefit plans | **(18,893)** | 13,336 | 368 |
| Change in fair value of derivatives used to hedge cash flows | **(1,241)** | - | (1,230) |
| Income tax on other comprehensive income | **4,939** | (5,274) | 81 |
| **Other comprehensive income (expenses) for the period, net of tax** | **(51,736)** | (27,020) | 32,545 |
| **Total comprehensive income for the period** | **189,856** | 126,201 | 806,859 |
| **Attributable to:** | | | |
| Equity holders of the company | **188,350** | 131,927 | 804,954 |
| Non-controlling interest | **1,506** | (5,726) | 1,905 |
| **Total comprehensive income for the period** | **189,856** | 126,201 | 806,859 |

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

## Condensed Consolidated Interim Statement of Changes in Equity

| | Attributable to equity holders of the Company | | | | | | | | Non-Controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Translation reserve from foreign operations | Reserve from available for sale assets | Capital reserves | Treasury shares | Retained earnings | Total | | |
| | (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 |
| **For the three-month period ended March 31, 2010** | | | | | | | | | | |
| **Balance as at January 1, 2010** | **541,028** | **84,059** | **8,823** | **5,420** | **19,660** | **(260,113)** | **2,374,883** | **2,773,760** | **21,089** | **2,794,849** |
| Exercise of options allotted to employees | **147** | **1,343** | **-** | **-** | **(1,490)** | **-** | **-** | **-** | **-** | **-** |
| Share-based payments | **-** | **-** | **-** | **-** | **7,784** | **-** | **-** | **7,784** | **-** | **7,784** |
| Dividends to shareholders | **-** | **-** | **-** | **-** | **-** | **-** | **(154,729)** | **(154,729)** | **-** | **(154,729)** |
| Tax benefit in respect of shares allotted to employees | **-** | **-** | **-** | **-** | **(515)** | **-** | **-** | **(515)** | **-** | **(515)** |
| Options of proportionately consolidated company issued to its employees | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **206** | **206** |
| Comprehensive income for the period | **-** | **-** | **(35,602)** | **(1,640)** | **(931)** | **-** | **226,523** | **188,350** | **1,506** | **189,856** |
| **Balance as at March 31, 2010** | **541,175** | **85,402** | **(26,779)** | **3,780** | **24,508** | **(260,113)** | **2,446,677** | **2,814,650** | **22,801** | **2,837,451** |

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

## Condensed Consolidated Interim Statement of Changes in Equity (cont'd)

| | Attributable to equity holders of the Company | | | | | | | | Non-Controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Translation reserve from Foreign Operations | Reserve from available for sale assets | Capital reserves | Treasury shares | Retained earnings | Total | | |
| | (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 |
| **For the three-month period ended March 31, 2009** | | | | | | | | | | |
| **Balance as at January 1, 2009** | 540,784 | 81,546 | (19,676) | 264 | 20,121 | (253,569) | 2,073,483 | 2,442,953 | 67,974 | 2,510,927 |
| Company purchase of its own shares | - | - | - | - | - | (6,544) | - | (6,544) | - | (6,544) |
| Share-based payments | - | - | - | - | 965 | - | - | 965 | - | 965 |
| Dividends to shareholders | - | - | - | - | - | - | (174,692) | (174,692) | - | (174,692) |
| Tax benefit in respect of shares allotted to employees | - | - | - | - | 34 | - | - | 34 | - | 34 |
| Options of proportionately consolidated company issued to its employees | - | - | - | - | - | - | - | - | 255 | 255 |
| Comprehensive income for the period | - | - | (39,201) | 2,562 | - | - | 168,566 | 131,927 | (5,726) | 126,201 |
| **Balance as at March 31, 2009** | 540,784 | 81,546 | (58,877) | 2,826 | 21,120 | (260,113) | 2,067,357 | 2,394,643 | 62,503 | 2,457,146 |

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

## Condensed Consolidated Interim Statement of Changes in Equity (cont'd)

| | Attributable to equity holders of the Company | | | | | | | | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Translation reserve from foreign operations | Reserve from available for sale assets | Capital reserve | Treasury shares | Retained earnings | Total | | |
| | (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 |
| **For the year ended December 31, 2009** | | | | | | | | | | |
| **Balance as at January 1, 2009** | 540,784 | 81,546 | (19,676) | 264 | 20,121 | (253,569) | 2,073,483 | 2,442,953 | 67,974 | 2,510,927 |
| Exercise of options granted to employees | 244 | 2,513 | - | - | (2,757) | - | - | - | - | - |
| Company purchase of its own shares | - | - | - | - | - | (6,544) | - | (6,544) | - | (6,544) |
| Share-based payments | - | - | - | - | 2,462 | - | - | 2,462 | - | 2,462 |
| Dividends to shareholders | - | - | - | - | - | - | (549,037) | (549,037) | (2,488) | (551,525) |
| Tax benefit in respect of allotment of shares to employees | - | - | - | - | 744 | - | - | 744 | - | 744 |
| Options of proportionately consolidated subsidiary issued to its employees | - | - | - | - | - | - | - | - | 1,926 | 1,926 |
| Investment of non-controlling interest in subsidiary | - | - | - | - | - | - | - | - | 30,000 | 30,000 |
| Acquisition of non-controlling interest in subsidiary | - | - | - | - | - | - | 78,228 | 78,228 | (78,228) | - |
| Comprehensive income for the year | - | - | 28,499 | 5,156 | (910) | - | 772,209 | 804,954 | 1,905 | 806,859 |
| **Balance as at December 31, 2009** | 541,028 | 84,059 | 8,823 | 5,420 | 19,660 | (260,113) | 2,374,883 | 2,773,760 | 21,089 | 2,794,849 |

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

## Condensed Consolidated Interim Statements of Cash Flows

| | For the three month period ended | | For the year ended |
|---|---|---|---|
| | March 31 2010 | March 31 2009 | December 31 2009 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | US$ thousands | US$ thousands | US$ thousands |
| **Cash flows from operating activities** | | | |
| Income for the period | **241,592** | 153,221 | 774,314 |
| Adjustments: | | | |
| Depreciation and amortization | **52,112** | 47,603 | 204,618 |
| Impairment of property, plant and equipment | **-** | - | 27,043 |
| Interest expenses, net | **8,732** | 5,371 | 20,368 |
| Share in (income) losses of associated companies | **1,425** | (571) | 1,482 |
| Gain on sale of property, plant and equipment | **(1,820)** | (164) | (2,550) |
| Gain on securities classified as held for trading and available-for-sale | **-** | (150) | (150) |
| Gain on sale of activities | **(5,587)** | - | - |
| Share-based payment transactions | **7,990** | 1,220 | 4,388 |
| Revaluation of assets and liabilities denominated in foreign currency | **(5,347)** | (7,772) | 17,455 |
| Income tax expenses | **60,556** | 75,543 | 168,492 |
| | **359,653** | 274,301 | 1,215,460 |
| Change in inventories | **71,982** | (56,484) | 62,796 |
| Change in trade and other receivables | **(166,483)** | 107,177 | 98,303 |
| Change in trade and other payables | **54,129** | (85,919) | (100,893) |
| Change in provisions and employee benefits | **462** | (23,203) | 63,479 |
| | **319,743** | 215,872 | 1,339,145 |
| Income taxes refunded (paid) | **(93,761)** | 27,464 | (111,893) |
| Interest received | **3,609** | 5,022 | 29,266 |
| Interest paid | **(10,036)** | (10,053) | (56,828) |
| **Net cash provided by operating activities** | **219,555** | 238,305 | 1,199,690 |
| **Cash flows from investing activities** | | | |
| Investment in long-term deposits | **(171)** | (21) | (4,605) |
| Proceeds from sale of property, plant and equipment | **2,926** | 863 | 3,540 |
| Short-term deposits and loans, net | **(43,034)** | (6,720) | (34,338) |
| Business combinations less cash acquired | **-** | - | (49,086) |
| Dividends received from associated companies | **18** | 200 | 1,075 |
| Acquisition of fixed assets | **(84,657)** | (89,474) | (346,443) |
| Investment grants received | **-** | 717 | 771 |
| Acquisition of intangible assets | **(3,184)** | (5,857) | (19,556) |
| Proceeds from sale of activities | **9,426** | - | - |
| Proceeds from realization of long-term deposits | **1,009** | 2,783 | 4,647 |
| **Net cash used in investment activities** | **(117,667)** | (97,509) | (443,995) |

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

## Condensed Consolidated Interim Statements of Cash Flows (cont'd)

| | For the three month period ended | | For the year ended |
|---|---|---|---|
| | March 31 2010 | March 31 2009 | December 31 2009 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | US$ thousands | US$ thousands | US$ thousands |
| **Cash flows from financing activities** | | | |
| Issue of debentures | - | - | 402,629 |
| Dividend paid to the Company's equity holders | - | - | (549,037) |
| Dividend paid to non-controlling interest | - | - | (2,488) |
| Receipt of long-term loans | **120,791** | 517 | 24,166 |
| Repayment of long-term loans | **(56,867)** | (15,674) | (276,499) |
| Acquisition by the Company of its own shares | - | (6,544) | (6,544) |
| Issuance of non-controlling interest in subsidiary company | - | - | 30,000 |
| Short-term credit from banks and others, net | **(7,819)** | (62,435) | (335,931) |
| **Net cash provided by (used in) financing activities** | **56,105** | (84,136) | (713,704) |
| **Net increase in cash and cash equivalents** | **157,993** | 56,660 | 41,991 |
| Cash and cash equivalents at beginning of the year | **257,970** | 215,154 | 215,154 |
| Effect of changes in the exchange rate on cash and cash equivalents | **(9,806)** | (897) | 825 |
| **Cash and cash equivalents at end of the period** | **406,157** | 270,917 | 257,970 |

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

## Note 1 - The Reporting Entity

Israel Chemicals Ltd. (hereinafter - "the Company"), is an Israeli-resident company that was incorporated in Israel and 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") constitute a multi-national group operating primarily in the fertilizers and specialty 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 Company is a subsidiary of Israel Corporation Ltd.

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 93% of the Group's output is sold to customers outside of Israel.

## 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 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 financial statements as at and for the year ended December 31, 2009 (hereinafter: "the annual financial statements"). In addition, these financial statements were prepared in accordance with the provisions of Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The condensed consolidated interim financial statements were approved for publication by the Group's Board of Directors on May 24, 2010.

## Note 2 - Basis of Preparation of the Financial Statements (cont'd)

### B. Functional currency and presentation currency

The United States dollar is the currency representing the main economic environment in which the Company operates and, accordingly, the dollar constitutes the functional and presentation currency in these financial statements. Currencies other than the dollar constitute foreign currency.

### C. Use of estimates and judgment

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

Management's judgment, at the time of implementing the Group's accounting policies and the main assumptions used in the estimates involving uncertainty, are consistent with those used in the annual financial statements.

## Note 3 - Significant Accounting Policies

### A. Initial implementation of new standards

**Amendment to IAS 1, Presentation of Financial Statements, Presentation of the statement of changes in equity.**

Commencing from January 1, 2010, the Group is making early application of the amendment to IAS 1, "Presentation of Financial Statements", which was published as part of the Improvements Project for 2010, whereby the Group presents as part of the statement of changes in equity, for every capital component, a reconciliation between the book value at the beginning of the period and the book value at the end of the period. Changes as a result of income and loss, and other comprehensive income will be reported in the statement of changes in equity on a net basis. In the notes to the annual financial statements, the Group will include separate disclosure for each change of the components of other comprehensive income.

### B. New accounting standards and Interpretations not yet adopted

**International Financial Reporting Standards IFRS 9, Financial Instruments**

IFRS 9, Financial Instruments (hereinafter – the Standard). This standard is the first part of a comprehensive project to replace IAS 39 Financial Instruments: Recognition and Measurement (hereinafter – IAS 39) and it replaces the requirements included in IAS 39 regarding the classification and measurement of financial assets. In accordance with the Standard, there are two principal categories for measuring financial assets: amortized cost and fair value, with the basis of classification for debt instruments being the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. In accordance with the Standard, an investment in a debt instrument will be measured at amortized cost if the objective of the entity's business model is to hold

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

### B. New accounting standards and Interpretations not yet adopted (cont'd)

**International Financial Reporting Standards IFRS 9, Financial Instruments (cont'd)**

assets in order to collect the contractual cash flows and the contractual terms give rise, on specific dates, to cash flows that are solely payments of principal and interest. All other financial assets are measured at fair value. Furthermore, embedded derivatives are no longer separated from hybrid contracts that have a financial host contract that is an asset. Instead, the entire hybrid contract is assessed for classification using the principles above. In addition, investments in equity instruments are measured at fair value with changes in the fair value being recognized in profit or loss.

Nevertheless, the Standard allows an entity on the initial recognition of an equity instrument not held for trading to elect to present fair value changes in the equity instrument (other than dividend) in other comprehensive income where no amount so recognized is ever classified to profit or loss. The Standard removes financial liabilities from its scope.

The Standard is effective for annual periods beginning on or after January 1, 2013 but may be applied earlier, subject to providing disclosure and at the same time adopting other IFRS amendments as specified in an annex to the Standard. The Standard is to be applied retrospectively other than in a number of exceptions as indicated in the transitional provisions included in the Standard. In particular, if an entity adopts the Standard for reporting periods beginning before January 1, 2012 it is not required to restate the comparative data.

The Company is examining the expected effects of the standard on its financial statements.

### C. Indices and Exchange Rates

Data regarding the representative exchange rates and the CPI are as follows:

| | **Consumer Price Index** | **Dollar–NIS exchange rate** | **Dollar–Euro exchange rate** |
|---|---|---|---|
| Rates of change for the three months ended: | | | |
| March 31, 2010 | **(0.9%)** | **(1.6%)** | 7.2% |
| March 31, 2009 | (0.1%) | 10.2% | 4.6% |
| | | | |
| For the year ended December 31, 2009 | 3.9% | (0.7%) | (3.3%) |

## 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 the 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.

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

# Note 4 - Business Segments (cont'd)

## B. Information on business segments

| | Fertilizers | | | | Industrial | Performance | Other | | |
|---|---|---|---|---|---|---|---|---|---|
| | Potash | Phosphate | Eliminations | Total | Products | Products | Operations | Eliminations | Consolidated |
| | 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 |
| **Three-month period ended March 31, 2010** | | | | | | | | | |
| Sales to external parties | **496,834** | **219,568** | **-** | **716,402** | **289,349** | **308,556** | **68,174** | **-** | **1,382,481** |
| Inter-segment sales | **42,002** | **26,194** | **(18,634)** | **49,562** | **2,852** | **10,710** | **7,915** | **(71,039)** | **-** |
| Total revenues | **538,836** | **245,762** | **(18,634)** | **765,964** | **292,201** | **319,266** | **76,089** | **(71,039)** | **1,382,481** |
| Operating income | **217,816** | **10,626** | **3,910** | **232,352** | **33,705** | **44,216** | **2,889** | | **313,162** |
| Unallocated loss and intercompany eliminations | | | | | | | | | **(9,695)** |
| Operating income | | | | | | | | | **303,467** |
| Financing expenses | | | | | | | | | **(21,417)** |
| Financing income | | | | | | | | | **21,523** |
| Share in income of associated companies, net of tax | | | | | | | | | **(1,425)** |
| Income before taxes on income | | | | | | | | | **302,148** |
| Capital expenditures | **37,471** | **14,593** | **-** | **52,064** | **17,828** | **5,467** | **4,681** | **-** | **80,040** |
| Unallocated capital expenditures | | | | | | | | | **113** |
| Total capital expenditures | | | | | | | | | **80,153** |
| Depreciation and amortization | **18,747** | **9,897** | **-** | **28,644** | **11,630** | **10,460** | **1,244** | **-** | **51,978** |
| Unallocated depreciation and amortization | | | | | | | | | **134** |
| Total depreciation and amortization | | | | | | | | | **52,112** |

# Note 4 - Business Segments (cont'd)

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

| | Fertilizers | | | | Industrial | Performance | Other | | |
|---|---|---|---|---|---|---|---|---|---|
| | Potash | Phosphate | Eliminations | Total | Products | Products | Operations | Eliminations | Consolidated |
| | 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 |
| **Three-month period ended March 31, 2009** | | | | | | | | | |
| Sales to external parties | 203,673 | 113,924 | - | 317,597 | 207,748 | 294,980 | 78,160 | - | 898,485 |
| Inter-segment sales | 40,747 | 33,148 | (20,384) | 53,511 | 2,349 | 6,422 | 8,801 | (71,083) | - |
| Total revenues | 244,420 | 147,072 | (20,384) | 371,108 | 210,097 | 301,402 | 86,961 | (71,083) | 898,485 |
| Operating income | 126,056 | 15,987 | (3,244) | 138,799 | 5,053 | 52,222 | 13,187 | - | 209,261 |
| Unallocated loss and intercompany eliminations | | | | | | | | | (3,639) |
| Operating income | | | | | | | | | 205,622 |
| Financing expenses | | | | | | | | | (18,097) |
| Financing income | | | | | | | | | 40,668 |
| Share in income of associated companies, net of tax | | | | | | | | | 571 |
| Income before taxes on income | | | | | | | | | 228,764 |
| Capital expenditures | 43,841 | 18,285 | - | 62,126 | 20,991 | 7,607 | 4,525 | - | 95,249 |
| Unallocated capital expenditures | | | | | | | | | 82 |
| Total capital expenditures | | | | | | | | | 95,331 |
| Depreciation and amortization | 16,181 | 9,270 | - | 25,451 | 10,875 | 10,126 | 996 | - | 47,448 |
| Unallocated depreciation and amortization | | | | | | | | | 155 |
| Total depreciation and amortization | | | | | | | | | 47,603 |

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

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

| | Fertilizers | | | | Industrial | Performance | Other | | |
|---|---|---|---|---|---|---|---|---|---|
| | Potash | Phosphate | Eliminations | Total | Products | Products | Operations | Eliminations | Consolidated |
| | 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 |
| **2009**: | | | | | | | | | |
| Sales to external customers | 1,264,567 | 689,174 | - | 1,953,741 | 1,003,982 | 1,293,539 | 303,054 | - | 4,554,316 |
| Inter-segment sales | 164,465 | 98,537 | (70,136) | 192,866 | 11,099 | 34,505 | 35,895 | (274,365) | - |
| Total revenues | 1,429,032 | 787,711 | (70,136) | 2,146,607 | 1,015,081 | 1,328,044 | 338,949 | (274,365) | 4,554,316 |
| Operating income | 708,071 | 11,473 | 3,579 | 723,123 | 20,851 | 162,746 | 29,294 | | 936,014 |
| Unallocated income and intercompany eliminations | | | | | | | | | 2,159 |
| Operating income | | | | | | | | | 938,173 |
| Financing expenses | | | | | | | | | (83,424) |
| Financing income | | | | | | | | | 89,539 |
| Share in income of associated companies, net of tax | | | | | | | | | (1,482) |
| Income before taxes on income | | | | | | | | | 942,806 |
| Capital expenditures | 179,317 | 65,459 | - | 244,776 | 106,298 | 59,848 | 13,514 | - | 424,436 |
| Unallocated capital expenditures | | | | | | | | | 4,402 |
| Total capital expenditures | | | | | | | | | 428,838 |
| Depreciation and amortization | 70,831 | 38,112 | - | 108,943 | 49,080 | 67,278 | 5,832 | - | 231,133 |
| Unallocated depreciation and amortization | | | | | | | | | 528 |
| Total depreciation and amortization | | | | | | | | | 231,661 |

# Note 5 - Additional Information

(1) On March 23, 2010, the Company's Board of Directors decided to distribute a dividend in the amount of $155 million (the net dividend, less the share of a subsidiary amounts to $154.7 million), about $0.12 per share. The dividend was paid on April 27, 2010.

(2) Subsequent to the date of the report, on May 24, 2010, the Company's Board of Directors decided to distribute a dividend in the amount of $668 million (the net dividend, less the share of a subsidiary amount to $666.8 million, about $0.53 per share. The dividend will be distributed on June 28, 2010.

(3) During the period of the report 954,665 options were exercised for 529,427 of the Company's ordinary shares.
Subsequent to the date of the report 82,907 options were exercised for 48,430 of the Company's ordinary shares. After exercise of the options, the Company's issued and paid-up share capital is 1,288,805,145 ordinary shares for NIS 1 par value.

(4) On January 7, 2010, ICL's Board of Directors approved an issue of 10,930,500 non-marketable options for no consideration to 318 ICL executives and senior employees in Israel and overseas. The issue included a material private placement of 1,100,000 options to ICL's CEO and 800,000 options to the Company's Chairman of the Board. On February 15, 2010, ICL's special general shareholder meeting approved the issue to the Chairman of the Board. The options may be exercised and converted into shares for an exercise price of NIS 53.1 (the base price of the shares at the beginning of the trading day on which the resolution was made), linked to the CPI and subject to adjustments. The options may be exercised in three equal portions on January 7, 2011, 2012, and 2013. The expiry date of the options for the first and second portions is at the end of 36 months from the approval of the Board and the expiry date of the options for the third portion is at the end of 48 months from the approval of the Board. The options to employees in Israel were issued to a trustee under Section 102 of the Income Tax Ordinance, under the "capital gain" tax track.
The fair value of the options issued in the said 2010 plan was valued on the basis of the Black & Scholes model for the pricing of the options. The following parameters were used in applying the formula:

| | **2010 Plan** |
|---|---|
| Share price (in NIS) | 53.1 |
| Exercise price (in NIS) | 53.1 |
| Expected volatility: | |
| First and second portions | 54.98% |
| Third portion | 48.45% |
| Life of options (in years) | |
| First and second portions | 2.5 |
| Third portion | 3.5 |
| Risk free interest rate | |
| First and second portions | 0.59% |
| Third portion | 1.29% |

## Note 5 - Additional Information (cont’d)

(4) (cont’d)

The expected volatility was determined on the basis of the historic fluctuations of the Company’s share price.
Option lifetime was determined according to management’s estimation of the employees’ period of holding the options, taking into consideration their positions with the Company and the Company’s experience in employee attrition.

The risk free interest rate was determined on the basis of the yield to maturity of shekel-based government bonds, whose remaining lives is different from the expected lifetime of the options.

The cost of the benefit inherent in the options allotted as aforementioned, on the basis of the fair value on the date they were granted, amounted to $54.3 million. This amount will be recorded to the statement of income over the vesting period of each portion. Accordingly, the Company included during the period of the report an expense in respect of the said plan in the amount of $7.5 million.

(5) See Note 24 to the annual financial Statements as at December 31, 2009 regarding contingent liabilities of the Company and its subsidiaries.